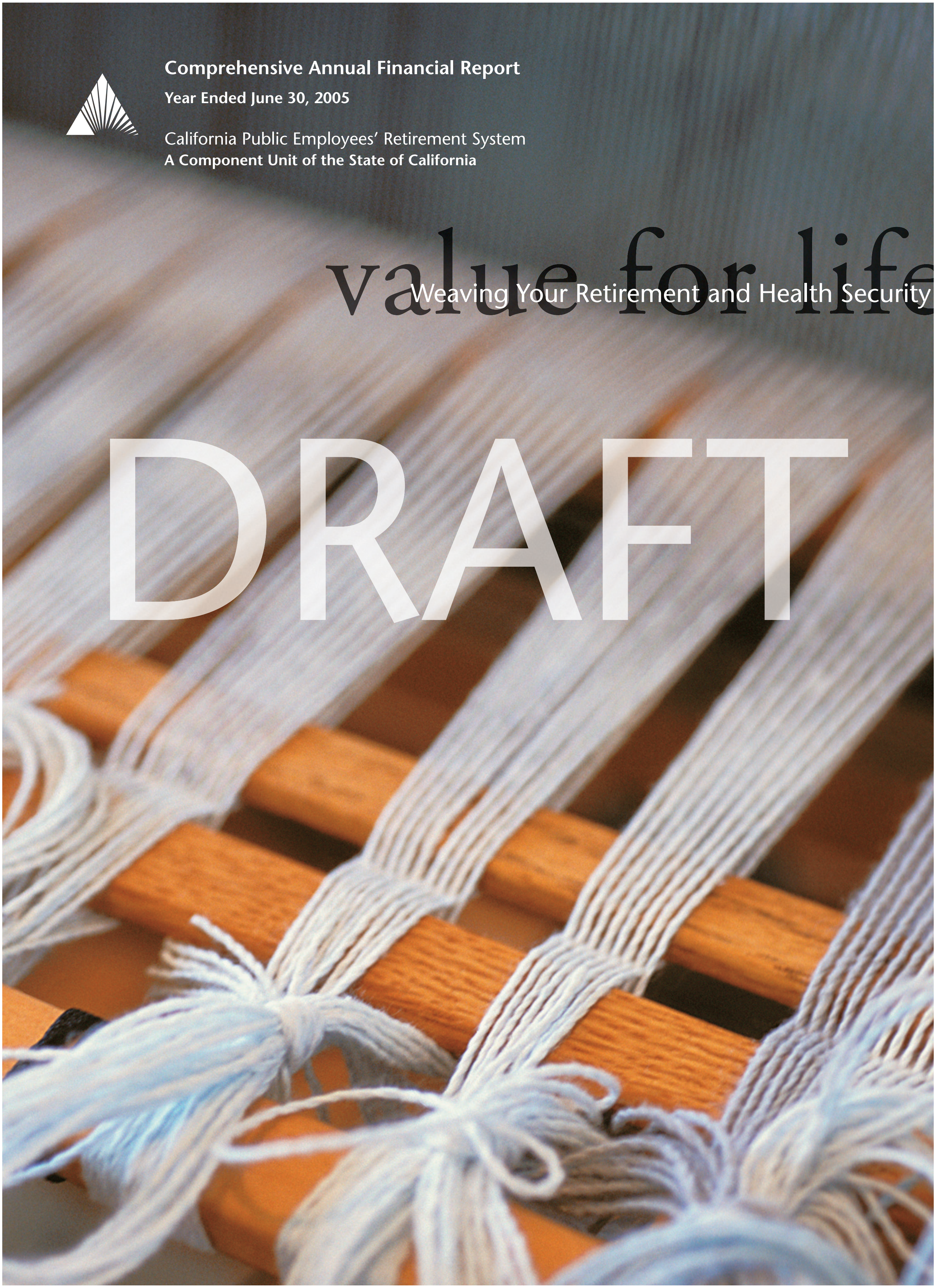
Comprehensive Annual Financial Report

Year Ended June 30, 2005

California Public Employees' Retirement System
A Component Unit of the State of California

value for life

Weaving Your Retirement and Health Security



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Independent Auditors' Report

To the Board of Administration
California Public Employees' Retirement System
Sacramento, California

We have audited the accompanying statement of fiduciary net assets of the fiduciary funds, and the statement of net assets of the proprietary funds and the statement of changes in assets and liabilities of the agency fund of the California Public Employees' Retirement System ("the System"), a component unit of the State of California, as of June 30, 2005 and the related statement of changes in fund net assets of the fiduciary and proprietary funds and of cash flows for the proprietary funds for the year then ended. These basic financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these basic financial statements based on our audits. The comparative totals as of and for the year ended June 30, 2004 presented in the basic financial statements are included for additional analysis only.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the fiduciary funds, the changes in assets and liabilities of the agency fund and the net assets of the proprietary funds of the System, as of June 30, 2005, and the related changes in fiduciary net assets and the operations and cash flows for the proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the basic financial statements, actual contributions to the Judges' Retirement Fund made by the State of California were materially less than the actuarially determined annual required contribution. Additionally, current year contributions made by the state of California were used to pay current year benefits. Management and legal counsel believe that the State of California is legally required to provide funding sufficient to pay benefits when due.

Management's discussion and analysis on pages 10 through 29 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The supplemental information included in pages 55 through 64 is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the System's management. Such information has been subjected to the auditing procedures applied by us in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole. The required supplemental information for the years ended June 30, 2001, 2000, 1999, 1998 and 1997 was audited by other auditors in connection with their audits of the respective financial statements, on which they expressed an unqualified opinion. The supplemental information included in pages 65 through 70 is presented for purposes of additional analysis and is not a required part of the 2005 basic financial statements. This supplementary information is the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied by us in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole.

November __, 2005

Management's Discussion and Analysis

This section presents management's discussion and analysis of the California Public Employees' Retirement System (CalPERS) financial performance during the fiscal year ended June 30, 2005, and is presented as a narrative overview and analysis in conjunction with the Chief Executive Officer's Letter of Transmittal included in the Introductory Section of the CalPERS Comprehensive Annual Financial Report. The Management's Discussion and Analysis should be read in conjunction with the basic financial statements of CalPERS, as presented in the Comprehensive Annual Financial Report.

In addition to the historical information, the Management's Discussion and Analysis includes certain forward-looking statements which involve certain risks and uncertainties. CalPERS actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements, due to a wide range of factors including changes in interest rates, changes in the securities markets, general economic conditions, and legislative changes, as well as other factors.

CalPERS is primarily responsible for administering retirement and health benefits, as well as administering supplemental retirement savings plans. CalPERS comprises a total of 14 funds, including five defined benefit pension funds, four defined contribution pension funds, four proprietary funds, and an agency fund. The Public Employees' Retirement Fund (PERF) is the primary fund administered by CalPERS.

Financial Highlights

Public Employees' Retirement Fund (PERF)

- The net assets of the PERF increased by $22.0 billion, or 13.0 percent. The increase was primarily due to strong returns in Real Estate and Private Equity investments.
- The PERF net rate of return on investments of 12.3 percent on a market value basis was a decrease from the 16.6 percent rate of return in the prior fiscal year. Real Estate and Private Equity produced exceptional returns for the year, and when combined with solid returns in both the equity and fixed income, CalPERS investments achieved double-digit returns for the second year in a row. A positive return was earned in each of the CalPERS asset classes. The 12.3 percent net rate of return will not impact employer contribution rates until the 2006 fiscal year for the State and school employers and 2007 fiscal year for public agency employers.
- As of June 30, 2004, the date of the most recent actuarial valuation, the PERF is actuarially funded at 87.3 percent, which is less than the June 30, 2003 87.7 percent funded level. The asset smoothing method only recognizes a portion of the total actuarial losses. Additional actuarial losses from fiscal years when CalPERS had negative investment returns were recognized in 2004-05 causing a slight decrease in the PERF funded ratio.
- The PERF paid $8.4 billion in retirement benefits to 425,094 annuitants during 2005, compared to $7.6 billion paid to 413,272 annuitants during the 2004 fiscal year. Benefit payments increased primarily due to an increase in the number of new retirees and cost-of-living adjustments (COLA).
- The total active/inactive membership was 1,016,982 at June 30, 2005. The PERF received $3.2 billion in employee contributions from 789,195 active members and $5.8 billion in employer contributions from 1,524 employers during fiscal year 2005, compared with $2.3 billion and $4.3 billion in employee and employer contributions respectively, in fiscal year 2004.

Member contributions were $910.3 million more than the prior fiscal year due to service credit purchases, increased contribution rates for certain employee categories and the end of a temporary cessation of State miscellaneous employee contributions. The increase in member contributions included $727.7 million in service credit purchases. Although there was an increase in member contributions, a temporary cessation of State miscellaneous employee contributions was in place for the first three months of the fiscal year resulting in $74 million in State miscellaneous employee conribuitions not made during the 2005 fiscal year, compared to $225 million for the entire 2004 fiscal year. The absence of State miscellaneous employee contributions in the 2005 fiscal year will be incorporated into future actuarial calculations for that employer in accordance with the CalPERS Board of Administration's adopted amortization policies.

Additional financial information related to the other pension funds administered by CalPERS is included in the Financial Analysis Section of the Management's Discussion and Analysis.

Health and Long-Term Care Programs

- The CalPERS self-funded health care program earned $13.2 million from operations, and unrestricted net assets increased by $23.2 million to $295.0 million. This increase can be attributed to a decrease in expected level of claims, moving Medicare-eligible members from the Basic Plan to the Medicare plan and savings of $18.0 million from pharmacy initiatives. Additionally, the self-funded plans had the lowest premium increase in six years.
- The unrestricted net assets of the CalPERS Long-Term Care Program amounted to a deficit of $822.4 million at June 30, 2005. This is a deficit increase of $556.2 million from the prior fiscal year deficit of $266.2 million. The deficit increase is a result of recent years' investment income being less than actuarial expectations, an increase in liabilities due to significant growth of inflation adjusted policies, an increase in claims experience, and an updated morbidity assumption based upon actual program experience.

Critical Accounting Policies

CalPERS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). CalPERS significant accounting policies are presented in Note 2 to the basic financial statements, which are included in this Comprehensive Annual Financial Report. CalPERS follows accounting policies to comply with various applicable laws and regulations and the guidelines as established by the Governmental Accounting Standards Board (GASB).

CalPERS most significant management accounting policies relate to the following.

Investments

All investments are reported at fair value. Many factors are considered in arriving at fair value. The fair value of investments in publicly held securities are generally based on actual market prices and quotations from major investment firms. In general, corporate bonds that do not have a published market price are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The CalPERS Investment Office securities analysts or outside experts determine the criteria to identify comparable securities based on the size, industry, and profitability of the company offering the securities and the term, rate, and dollar amount of the security.

Mortgages are valued on the basis of the timing of future principal payments and the amount of interest payments discounted at prevailing interest rates for similar instruments. The prevailing interest rates for mortgages are generally based on the 30-year Treasury note rate, which can be found in financial publications. Market interest rate changes impact the likelihood of refinancing activity, which impacts the value of the mortgage investments. Declining interest rates will cause the value of mortgage investments to increase, but at a slower rate than non-callable similar duration securities.

The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. The appraisals are performed by CalPERS-approved appraisers who meet specific professional qualifications. Appraisals are estimates of current value and are based on three methods: the income approach, the cost approach, and the comparative sales approach. The three approaches are then compared and the appraiser determines the most appropriate valuation for the property. The appraisal process involves a significant amount of judgment and changes in the real estate marketplace are not immediately taken into consideration, as the appraisals are performed annually.

Short-term investments are reported at fair value, when available, or at cost plus accrued interest, when quoted market values are not available.

Alternative investments consist of investments in a variety of markets and industries through partnerships, co-investments, direct investments, and other investment vehicles. For these investments, and others where no readily ascertainable market value exists, management, in consultation with investment advisors, determined the fair values for the individual investments. Management takes into consideration factors such as the book value, based on audited financial statements, the current and projected income generated by the investment, and the cost of the investment. These estimates are, by their nature, subjective and based on judgment. Hedge funds are valued at fair value.

CalPERS, through outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. The fair value of futures, options, and forward foreign currency exchange contracts are determined based upon quoted market values.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contract. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. Investment performance rates of return for asset classes and total funds are prepared using pre-audit asset data by Wilshire Associates. The returns are based solely on Wilshire Associates' compilation and analysis of the data as provided by the master custodian, State Street Bank.

Actuarial Valuation

Actuarial valuations are used to determine the cost of pension benefits payable to the members of CalPERS who participate in the PERF, the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Volunteer Firefighters' Length of Service Award Fund (VFF), as well as the related required contribution rates. The actuarial valuations include a number of significant assumptions including the actuarial valuation method used, the asset valuation method, the rate of return on the investment portfolio, rate of inflation, projected salary increases, post retirement benefits, and the life expectancy of members and beneficiaries. Significant actuarial assumptions used in the valuations are included in the Notes to the Required Supplemental Schedules on page 64.

Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported (IBNR). The estimated claims liability was calculated by the HCF's third-party administrator, using a variety of actuarial and statistical techniques, and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to the fiscal year end, but have not been reported to the HCF.

The Public Employees' Long-Term Care Fund (LTCF) estimates the required funding level to provide for the payment of future claim benefits. This estimate is predicated upon participation levels that are expected to be achieved by the program. The LTCF establishes the current liability for future benefits based on the present value of such future benefits and expenses, less the present value of expected future premiums.

An actuarial valuation establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by the Fund's actuary, using a variety of actuarial and statistical techniques.

Overview of the Financial Statements

The Management's Discussion and Analysis provides an introduction to and overview of the CalPERS basic financial statements, which comprise the following components: fund financial statements, notes to the financial statements, required supplementary information, and other supplementary schedules. Collectively, this information presents the combined net assets held in trust for pension benefits and the combined unrestricted net assets for each of the funds administered by CalPERS as of June 30, 2005, and summarizes the combined changes in net assets held in trust for pension benefits, the combined changes in unrestricted net assets, and the cash flows of the proprietary funds for the year then ended, along with an actuarial view on the funding status of the defined benefit plans. The information available in each of these sections is briefly summarized as follows.

Fund Financial Statements

At June 30, 2005, financial statements are presented for the two types of funds administered by CalPERS: fiduciary funds and proprietary funds.

Fiduciary funds **—** include pension trust funds. The defined benefit plans administered by CalPERS include the PERF, LRF, JRF, and JRF II. The defined contribution plans administered by CalPERS include the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF). The remaining fiduciary funds are the VFF, an award system, and the Old Age & Survivors' Insurance Revolving Fund (OASI). The fiduciary funds are used to account for resources held for the benefit of CalPERS participants. A statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented for the fiduciary funds as of and for the year ended June 30, 2005, along with comparative total information as of and for the year ended June 30, 2004. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Proprietary funds — include the following enterprise funds: the Public Employees' Health Care Fund (HCF), the Public Employees' Contingency Reserve Fund (CRF), the Public Employees' Long-Term Care Fund (LTCF), and the Public Employees' Deferred Compensation Fund (DCF). Proprietary funds are used to account for CalPERS business-type activities, where fees are charged to cover the costs of certain services, including long-term care, health care, and other benefits. A statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows are presented for the proprietary funds as of June 30, 2005 and for the year then ended, along with comparative total information as of and for the year ended June 30, 2004. These financial statements reflect the net assets of, changes in net assets of, and cash flows from CalPERS business-type activities.

Notes to the Basic Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the information provided in the fund financial statements. Information available in the notes to the financial statements is described below.

Note 1 **—** provides a general description of CalPERS, as well as a concise description of each of the funds administered by CalPERS. Information regarding employer and member participation in the pension plans administered by CalPERS is also provided.

Note 2 **—** provides a summary of significant accounting policies, including the basis of accounting for each of the fund types, investment accounting policies, management's use of estimates, information regarding the implementation of new accounting pronouncements, and other significant accounting policies.

Note 3 **—** provides information on cash and cash equivalents.

Note 4 **—** describes investments, including investing authority, investment risk categorizations, and additional information about cash, securities lending, and derivatives.

Note 5 **—** provides information about employer contributions to the pension funds administered by CalPERS.

Note 6 **—** provides information on commitments.

Note 7 **—** provides information on potential contingencies of CalPERS.

Note 8 **—** provides detailed information on the estimated claims liability of the HCF.

Note 9 **—** provides information regarding the LTCF June 30, 2005 actuarial valuation.

Management's Discussion and Analysis

Required Supplementary Information

Because of the long-term nature of a public defined benefit pension plan, financial statements for the past year alone cannot provide sufficient information to properly reflect the funded position of the plan. Therefore, in addition to the basic financial statements, two required schedules of historical trend information related to the defined benefit plans are presented as part of the Required Supplementary Information (RSI) section of the basic financial statements. These two schedules are the Required Supplemental Schedule of Funding Progress and the Required Supplemental Schedule of Employer Contributions. These two schedules are based on the actuarial valuations performed by CalPERS actuaries, and provide additional actuarial information that contributes to the understanding of the changes in the actuarial funding of, and the funded status of, these defined benefit plans over the last 10 years. The actuarial information is based upon assumptions made about future events at the time the valuations were performed, and, therefore, the amounts presented are management's estimates. Also included as part of the RSI is the Required Supplemental Schedule of Claims Development Information for the HCF.

Other Supplementary Schedules

Other schedules include detailed information on administrative expenses incurred by CalPERS-administered funds, as well as investment and other professional services expenses incurred.

Financial Analysis of CalPERS Funds

Public Employees' Retirement Fund (PERF)

Plan Net Assets

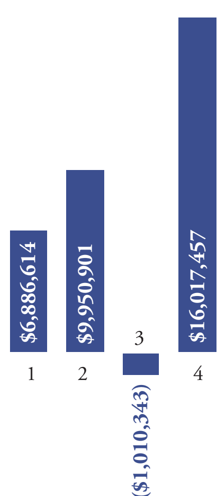
The PERF provides retirement benefits to State of California and other California public agency employees. PERF benefits are funded by member and employer contributions and by earnings on investments. The PERF net assets held in trust for benefits at June 30, 2005 were $189.6 billion, an increase of $22.0 billion (13.1 percent) from $167.6 billion at June 30, 2004.

Additions to PERF net assets held in trust for benefits include employer and member contributions, as well as investment income. For the 2005 fiscal year, employer and member contributions totaled $8.9 billion, an increase of $2.4 billion (36.9 percent) from the 2004 fiscal year. The increase in required contributions was due to the

Additions — PERF

(Dollars in Thousands)

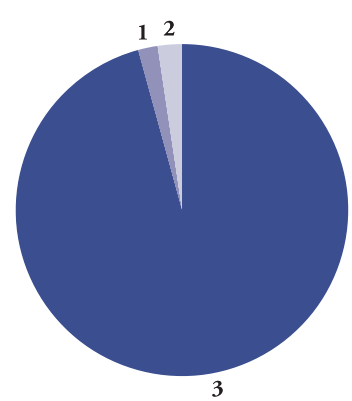
1. Interest, Dividends, Real Estate & Other
2. Retirement Contributions
3. Other Investment Expenses
4. Net Appreciation in Fair Value of Investments



Deductions — PERF

(Dollars in Thousands)

1. Administrative Expenses - **$208,965**
2. Contribution Refunds - **$155,236**
3. Retirement Benefits - **$8,434,119**



Management's Discussion and Analysis

Net Assets — PERF

(Dollars in Thousands)

	2005	2004	Total Percentage Change
Assets			
Cash, Cash Equivalents & Total Receivables	$5,399,361	$3,448,909	56.6%
Investments	193,867,878	169,462,222	14.4
Securities/Lending Collateral	36,139,100	25,454,352	42.0
Capital Assets & Other	352,633	267,510	31.8
Total Assets	**$235,758,972**	**$198,632,993**	**18.7%**
Liabilities			
Retirement Benefits in Process of Payment, Investment Settlement & Other	$9,988,991	$5,594,542	78.5%
Liabilities to Brokers for Security Lending	36,139,100	25,454,352	42.0
Total Liabilities	**$46,128,091**	**$31,048,894**	**48.6%**
Total Net Assets	**$189,630,881**	**$167,584,099**	**13.2%**

Changes in Net Assets — PERF

(Dollars in Thousands)

	2005	2004	Total Percentage Change
Additions			
Member Contributions	$3,176,781	$2,266,445	40.2%
Employer Contributions	5,774,120	4,261,347	35.5
Investment Income	21,893,728	24,265,850	(9.8)
Other	473	6,723	(93.0)
Total Additions	**$30,845,102**	**$30,800,365**	**0.1%**
Deductions			
Retirement Benefits	$8,434,119	$7,639,085	10.4%
Refund of Contributions	155,236	151,526	2.4
Administrative Expenses	208,965	188,361	10.9
Total Deductions	**$8,798,320**	**$7,978,972**	**10.3%**
Increase in Net Assets	**$22,046,782**	**$22,821,393**	**(3.4%)**

recognition of additional actuarial losses from prior fiscal years when the PERF incurred negative investment returns and the end of the temporary cessation of certain State miscellaneous employee contributions. The PERF recognized net investment income of $21.9 billion for the 2005 fiscal year, compared with a net investment income of $24.3 billion for the 2004 fiscal year.

Deductions from PERF net assets held in trust for benefits consist primarily of retirement, death, and survivor benefits, refunds, and administrative expenses. For the 2005 fiscal year, retirement, death, and survivor benefits totaled $8.4 billion, an increase of $0.8 billion (10.5 percent) from the 2004 fiscal year. The increase in benefit payments was primarily a result of an increase in the number of retirees from 413,272 to 425,094 and COLA increases. For the 2005 fiscal year, the costs of administering the PERF benefits amounted to $209.0 million, an increase of approximately $20.6 million (10.9 percent) from the 2004 fiscal year due to the resumption of projects and increased operating costs.

On a per member and beneficiary basis, the cost of administering PERF benefits during the 2005 fiscal year was approximately $145 per individual, an increase of approximately $12 per individual from the 2004 fiscal year.

An actuarial valuation of PERF assets and benefit obligations is performed annually. At June 30, 2004, the date of the most recent actuarial valuation, the funded status of the PERF decreased to 87.3 percent from 87.7 percent at June 30, 2003. The amount by which PERF actuarial benefit liabilities exceeded actuarial assets was $24.7 billion at June 30, 2004, compared with a $22.3 billion funding deficit at June 30, 2003. This decrease in funded status relates primarily to the recognition of additional actuarial losses from prior fiscal years when the PERF incurred negative investment returns.

Current year earnings will affect future years' funded status and contribution rates using the CalPERS policy of actuarial asset smoothing.

Investments

PERF investments, excluding securities lending collateral, totaled $193.8 billion at June 30, 2005, which was $24.3 billion (14.3 percent) more than the $169.5 billion in total PERF investments at June 30, 2004.

At June 30, 2005, the PERF held $114.8 billion in domestic equity and international equity securities, an increase of $12.3 billion from $102.5 billion at fiscal year end 2004. The increase was mainly due to redeployment of cash generated by the selling of Real Estate investments and above average returns in International equity securities during 2005. Domestic equity and international equity securities earned returns of approximately 7.3 percent and 17.5 percent, respectively, for the 2005 fiscal year, compared to 20.9 percent and 29.0 percent, respectively for fiscal year 2004.

CalPERS benchmark returns for domestic and international equity securities for fiscal year 2005 were 7.6 percent and 16.9 percent, respectively. CalPERS uses the Wilshire 2500 Index to provide a benchmark for the domestic equity investment returns, and the PERS SSGA Custom Index for international equity investment returns. These benchmarks

Investments — PERF

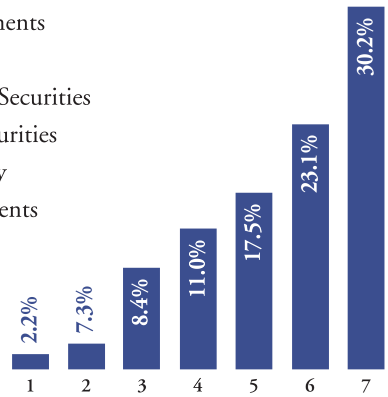
(Dollars in Billions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Short-Term Investments	$5.3	2.7%	2.2%	1.1%	2.0%
Domestic Equity	76.0	39.2	7.3	20.9	7.6
International Equity	38.8	20.0	17.5	29.0	16.9
Domestic Debt Securities	49.8	25.7	11.0	1.4	11.3
International Debt Securities	4.5	2.3	8.4	7.9	7.8
Real Estate	9.6	5.0	30.2	13.0	15.6
Alternative Investments	9.8	5.1	23.1	12.8	12.2
Total or Overall Return	**$193.8**	**100.0%**	**12.3%**	**16.6%**	**12.7%**

Management's Discussion and Analysis

Investment Returns — PERF

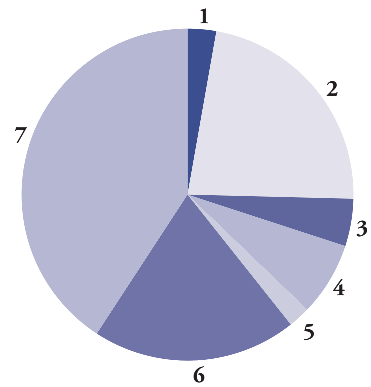
1. Short-Term Investments
2. Domestic Equity
3. International Debt Securities
4. Domestic Debt Securities
5. International Equity
6. Alternative Investments
7. Real Estate



Investment Portfolio — PERF at Market Value

(Dollars in Billions)

1. International Debt Securities - **$4.5**
2. Domestic Debt Securities - **$49.8**
3. Alternative Investments - **$9.8**
4. Real Estate - **$9.6**
5. Short-Term Investments - **$5.3**
6. International Equity - **$38.8**
7. Domestic Equity - **$76.0**



Note:

Excludes $36.1 billion in securities lending collateral.

are representative of the returns that could be expected in a similar investing environment, and reflect the overall market conditions.

At June 30, 2005, the PERF held $54.3 billion in domestic and international debt securities, an increase of $11.3 billion from $43.0 billion at fiscal year end 2004. Domestic debt securities returned approximately 11.0 percent, and international debt securities returned approximately 8.4 percent for the 2005 fiscal year, compared to the 1.4 percent and 7.9 percent, respectively for fiscal year 2004. CalPERS benchmark returns were 11.3 percent and 7.8 percent, respectively. CalPERS uses the Lehman Long Liability Index and the Lehman International Fixed Income Index to provide a benchmark for fixed income investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment.

At June 30, 2005, the PERF held $9.6 billion in net real estate investments, a decrease of $2.5 billion from $12.1 billion at the 2004 fiscal year end. CalPERS took advantage of the near-record high valuations of some of its real estate holdings and sold them to other investor groups, locking in exceptional returns. Real estate investments returned approximately 30.2 percent for the 2005 fiscal year, compared to 13.0 percent for fiscal year 2004.

CalPERS benchmark real estate return for fiscal year 2005 was 15.6 percent. CalPERS uses the NCREIF Property Index to provide a benchmark for our real estate investment returns.

At June 30, 2005, the PERF held $9.8 billion in alternative investments, an increase of $1.5 billion from $8.3 billion at the 2004 fiscal year end. Alternative investments yielded a return of approximately 23.1 percent for the 2005 fiscal year, compared to 12.8 percent for fiscal year 2004.

CalPERS benchmark alternative investment return for fiscal year 2005 was 12.2 percent. CalPERS uses the Venture Economics Custom Young Fund Universe to provide a benchmark for alternative investments.

At June 30, 2005, the PERF held $5.3 billion in short-term investments an increase of $1.7 billion from the $3.6 billion at the 2004 fiscal year end. Short-term investments returned approximately 2.2 percent for the 2005 fiscal year, compared to 1.1 percent for fiscal year 2004. CalPERS uses the SSGA custom STIF as a benchmark for short-term investments.

The PERF earned other investment income of $1.3 billion for the 2005 fiscal year. Included in other investment income was $1.2 billion from income earned in the Alternative Investment Management Program, $0.1 billion from securities litigation, sale of fractional shares, and other miscellaneous income.

The PERF earns additional investment income by lending investment securities. The borrowers provide collateral to the PERF that are valued in excess of the securities loaned. For the 2005 fiscal year, net securities lending income amounted to $114.8 million, an increase of $11.8 million (11.5 percent) from $103.0 million during fiscal year 2004.

CalPERS participates in Directed Brokerage/Commission Recapture arrangements. The CalPERS Directed Brokerage Program had a balance of $2.0 million at July 1, 2004. For fiscal year 2005, brokerage commissions that were rebated totaled $6.7 million. Expenses in the amount of $6.3 million were incurred to purchase analytical tools, advisory, and other research materials. The Directed Brokerage Program had a balance of approximately $2.4 million at June 30, 2005. These amounts are recorded in the accompanying financial statements as of June 30, 2005 and 2004.

CalPERS participates in asset based lending, in which secured debt is loaned to non-investment grade borrowers, primarily for working capital, acquisitions, turnarounds, growth financing, debtor-in-possession financing, exit financing, and corporate recapitalization/reorganizations. In exchange for these loan amounts, CalPERS receives interest and fees from the borrowers. At June 30, 2005, interest and fee income earned was $7.8 million and outstanding commitments totaled $517.7 million.

Other Defined Benefit Pension Plans

Legislators' Retirement Fund (LRF)

Plan Net Assets

The LRF provides retirement benefits to California Legislators, Constitutional Officers, and Statutory Officers elected to office before November 7, 1990. The number of LRF members is declining as eligible incumbent Legislators leave office and are replaced by those ineligible to participate in the LRF.

The LRF net assets held in trust for benefits at June 30, 2005 totaled $138.1 million, an increase of $3.5 million (2.6 percent) from June 30, 2004.

Additions to LRF net assets held in trust for benefits were from investment income and contributions to repurchase military and prior year service credit. There were no actuarially determined annual required employer and member contributions for 2005. Net investment income increased $1.5 million (13.5 percent) to a net investment gain of $12.6 million for the 2005 fiscal year, from a net investment gain of $11.1 million for the 2004 fiscal year, due mainly to strong returns earned in equity securities during 2005.

Deductions in LRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2005 fiscal year, these benefits increased $0.7 million (9.9 percent) to $7.8 million from $7.1 million

Investments — LRF

(Dollars in Millions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Domestic Equity	$40.3	29.2%	6.0%	19.2%	5.9%
International Equity	13.2	9.6	14.1	33.1	13.7
Domestic Debt Securities	84.6	61.2	8.6	(0.2)	11.5
Total or Overall Return	**$138.1**	**100.0%**	**8.8%**	**9.1%**	**10.3%**

in 2004. The increase was primarily due to additional one-time lump sum payments for refunds, death benefits, and adjustments. On a per member and beneficiary basis, the cost of administering LRF benefits during the 2005 fiscal year was approximately $1,016 per individual, an increase of approximately $136 per individual from the 2004 fiscal year due to increased direct expenses.

An actuarial valuation of LRF assets and benefit obligations is performed annually using the aggregate cost method, which does not identify unfunded actuarial liabilities. Based on the most recent actuarial valuation, performed as of June 30, 2004, the active member contribution rate for the 2006 fiscal year remains at zero percent.

Investments

The LRF invests mainly in domestic and international equity securities, as well as domestic debt securities. LRF investments totaled $138.1 million at June 30, 2005, which was $3.8 million (2.8 percent) more than the $134.3 million in total LRF investments at June 30, 2004, primarily as a result of strong equity markets during 2005.

At June 30, 2005, the LRF held $53.5 million in domestic equity and international equity securities, a decrease of $6.0 million from $59.5 million at fiscal year end 2004. Domestic equity and international equity securities experienced returns of approximately 6.0 percent and 14.1 percent for fiscal year 2005 respectively, compared to

Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

	LRF		JRF		JRF II		VFF	
	2005	2004	2005	2004	2005	2004	2005	2004
Assets								
Cash, Cash Equivalents & Receivables	$906	$986	$12,215	$7,458	$2,908	$2,580	$423	$433
Investments	138,063	134,337	5,195	65	172,068	126,809	4,940	2,401
Total Assets	**$138,969**	**$135,323**	**$17,410**	**$7,523**	**$174,976**	**$129,389**	**$5,363**	**$2,834**
Total Liabilities	**$874**	**$735**	**$166**	**$2,913**	**$3,102**	**$74**	**$2,313**	**$54**
Total Net Assets	**$138,095**	**$134,588**	**$17,244**	**$4,610**	**$171,874**	**$129,315**	**$3,050**	**$2,780**

Changes in Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

	LRF		JRF		JRF II		VFF	
	2005	2004	2005	2004	2005	2004	2005	2004
Additions								
Member Contributions	$20	$56	$10,417	$11,262	$8,217	$8,131	—	$ —
Employer Contributions	—	—	127,078	107,318	21,195	18,240	211	223
Investment Income	12,575	11,094	234	59	14,816	13,431	241	252
Other Income	1	—	2,663	4,020	—	—	—	—
Total Additions	**$12,596**	**$11,150**	**$140,392**	**$122,659**	**$44,228**	**$39,802**	**$452**	**$475**
Deductions								
Retirement Benefits	$7,792	$7,051	$126,609	$121,604	$904	$584	$82	$59
Refund of Contributions	979	214	88	238	340	203	—	—
Administrative Expenses	318	281	1,061	719	425	414	100	169
Total Deductions	**$9,089**	**$7,546**	**$127,758**	**$122,561**	**$1,669**	**$1,201**	**$182**	**$228**
Increase in Net Assets	**$3,507**	**$3,604**	**$12,634**	**$98**	**$42,559**	**$38,601**	**$270**	**$247**

the 19.2 percent and 33.1 percent for fiscal year 2004. CalPERS benchmark returns for the fiscal year 2005 were 5.9 percent and 13.7 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index (net of dividends), to provide a benchmark for the equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment and reflect the overall market conditions.

At June 30, 2005, the LRF held $84.6 million in domestic debt securities, an increase of $9.8 million from $74.8 million at fiscal year end 2004. Domestic debt securities returned 8.6 percent for fiscal year 2005, compared to a negative 0.2 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 11.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market characteristics.

Judges' Retirement Fund (JRF)

Plan Net Assets

The JRF provides retirement benefits to California Supreme and Appellate Court Justices and Superior Court Judges. The JRF net assets held in trust for benefits at June 30, 2005 totaled $17.2 million, an increase of $12.6 million from June 30, 2004.

Additions to JRF net assets held in trust for benefits include employer, State of California, and member contributions, as well as investment income. For the 2005 fiscal year, employer, State, and member contributions increased $18.9 million (15.9 percent) to $137.5 million, from $118.6 million for the 2004 fiscal year, primarily as a result of an increase in the State's contribution. For the 2005 fiscal year, net investment income increased $0.2 million (296.6 percent) from the 2004 fiscal year due mainly to higher average asset balances throughout the year.

Deductions in JRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2005 fiscal year, these benefits amounted to $126.6 million, an increase of $5.0 million (4.1 percent) from the 2004 fiscal year. The increase in benefit payments was mainly a result of a COLA and an increase in the number of JRF retirees and beneficiaries to 1,606 in the 2005 fiscal year from 1,558 in the 2004 fiscal year.

On a per member and beneficiary basis, the cost of administering JRF benefits during 2005 was approximately $421 per individual, an increase of approximately $138 per individual from fiscal year 2004 due to increased direct expenses.

The JRF is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a State General Fund augmentation are used to provide funding for benefit payments. This funding method is generally more expensive in the long term, as the fund does not have investment returns generated by a funded plan. Without the State General Fund augmentation, the JRF will not be able to pay the accumulated benefit payments due in 2006.

Investments — JRF II

(Dollars in Millions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Short-Term Investments	$6.9	4.0%	2.4%	1.4%	N/A
Domestic Equity	56.2	32.7	6.0	19.2	5.9%
International Equity	30.9	18.0	14.0	32.6	13.7
Domestic Debt Securities	61.5	35.7	8.8	0.2	11.5
Real Estate	16.6	9.6	N/A	N/A	34.1
Total or Overall Return	**$172.1**	**100.0%**	**9.7%**	**13.8%**	**8.6%**

Investments

The JRF invests only in short-term securities. Total JRF investments were $5.2 million at June 30, 2005, which was $5.1 million more than the $65,000 in total JRF investments at June 30, 2004. The increase in total JRF investments was primarily due to an increase in total contributions. Short-term investments returned approximately 2.4 percent for fiscal year 2005, compared with the 1.0 percent for fiscal year 2004.

Judges' Retirement Fund II (JRF II)

Plan Net Assets

The JRF II provides retirement benefits to California Supreme and Appellate Court Justices, Superior Court Judges, and Municipal Court Judges first appointed or elected after November 9, 1994. The JRF II net assets held in trust for benefits at June 30, 2005 were $171.9 million, an increase of $42.6 million (32.9 percent) from June 30, 2004.

Additions to JRF II net assets held in trust for benefits include employer and member contributions, as well as investment income. Employer and member contributions increased $3.0 million (11.4 percent), to $29.4 million for the 2005 fiscal year, from $26.4 million for the 2004 fiscal year, primarily as a result of a 8.4 percent increase in membership from 2004 to 2005. For the 2005 fiscal year, the JRF II earned net investment income of $14.8 million, an increase in income of approximately $1.4 million (10.4 percent) from the 2004 fiscal year net investment income of $13.4 million, primarily due to increased dividends from equity investments as well as from stable earnings from fixed income investments.

Deductions in JRF II net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2005 fiscal year, these benefits amounted to $904,000, an increase of $320,000 (54.8 percent) from the 2004 fiscal year.

On a per member and beneficiary basis, the cost of administering JRF II benefits during fiscal year 2005 was approximately $561 per individual, a decrease of approximately $34 per individual from fiscal year 2004 due to increased membership.

An actuarial valuation of the JRF II assets and benefit obligations is performed annually. At June 30, 2004, the date of the most recent actuarial valuation, the funded status of JRF II increased to 93.8 percent from 91.4 percent at June 30, 2003. At June 30, 2004, the JRF II actuarial benefit obligations exceeded its actuarial assets by approximately $8.6 million, while the amount by which the JRF II actuarial benefit obligations exceeded its actuarial assets at June 30, 2003, was approximately $9.0 million.

Investments

The JRF II invests mainly in domestic and international equity securities and domestic debt securities. Total JRF II investments amounted to $172.1 million (see table on previous page) at June 30, 2005, which was $45.3 million (35.7 percent) more than the $126.8 million at June 30, 2004. The increase in total JRF II investments was primarily due to the increase in contributions and membership, and positive investment returns during the 2005 fiscal year.

At June 30, 2005, the JRF II held $87.1 million in domestic equity and international equity securities, an increase of $13.3 million from $73.8 million at fiscal year end 2004. Domestic equity and international equity securities experienced returns of approximately 6.0 percent and 14.0 percent for fiscal year 2005, compared to the 19.2 percent and 32.6 percent for fiscal year 2004. CalPERS benchmark returns for fiscal year 2005 were 5.9 percent and 13.7 percent, respectively. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market characteristics.

At June 30, 2005, the JRF II held $61.5 million in domestic debt securities, an increase of $12.9 million from $48.6 million at fiscal year end 2004. Domestic debt securities returned approximately 8.8 percent for the 2005 fiscal year, compared to 0.2 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 11.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment.

At June 30, 2005, the JRF II held $6.9 million in short-term investments, an increase of $2.5 million from $4.4 million at fiscal year end 2004. Short-term investments returned approximately 2.4 percent for fiscal year 2005, compared to 1.4 percent for fiscal year 2004.

Volunteer Firefighters' Fund (VFF)

Plan Net Assets

The VFF provides monetary awards to volunteer firefighters. The VFF net assets held in trust for benefits at June 30, 2005 were $3.1 million, an increase of approximately $0.3 million (10.7 percent), from $2.8 million at June 30, 2004.

Contribution revenues totaled $211,000 for the 2005 fiscal year, a decrease of 5.4 percent from the 2004 fiscal year. Net investment income was $241,000 for fiscal year 2005, a decrease in investment returns of 4.4 percent from the $252,000 in net investment income for fiscal year 2004.

Deductions from VFF net assets held in trust include awards of $82,000 for fiscal year 2005, an increase of 39.0 percent from the 2004 fiscal year, primarily due to more participants qualifying and taking awards earlier.

On a per member and beneficiary basis, the cost of administering the VFF benefits during fiscal year 2005 were approximately $28 per individual, a decrease of approximately $19 per individual from fiscal year 2004. The decrease was due to lower direct expenses.

An actuarial valuation of the VFF assets and benefit obligations is performed annually. At June 30, 2004, the date of the most recent actuarial valuation, the funded status of the VFF decreased to 84.4 percent from 86.9 percent at June 30, 2003. At June 30, 2004, the VFF actuarial benefit obligations exceeded its actuarial assets by $550,000, compared to $420,000 at June 30, 2003.

Investments

The VFF invests mainly in domestic equity securities, international equity securities, domestic debt securities, and real estate equities. Total VFF investments were $4.9 million at June 30, 2005, which was $2.4 million (96.0 percent) more than the $2.5 million at June 30, 2004. The increase in total VFF investments was due primarily to an increase in investment payables.

At June 30, 2005, the VFF held $865,000 in domestic equity securities, a decrease of $535,000 from $1.4 million at fiscal year end 2004. Domestic equity securities experienced returns of approximately 6.7 percent for fiscal year 2005, compared to a 19.2 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 5.9 percent. CalPERS uses the Custom S&P 500 Index to provide a benchmark for our equity investment returns. International equity securities and real estate equities were purchased late in the 2005 fiscal year and were not held long enough to provide an annual rate of return. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market characteristics.

Investments — VFF

(Dollars in Millions)

Investment Class	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Short-Term Investment	$2.3	46.9%	2.2%	N/A	N/A
Domestic Equity	0.9	18.4	6.7	19.2%	5.9%
International Equity	0.5	10.2	N/A	N/A	N/A
Domestic Debt Securities	0.9	18.4	10.1	0.3	11.5
Real Estate	0.3	6.1	25.3	N/A	34.1
Total or Overall Return	**$4.9**	**100.0%**	**10.2%**	**11.9%**	**8.8%**

Management's Discussion and Analysis

At June 30, 2005, the VFF held $937,000 in domestic debt securities, an increase of $76,000 from $861,000 at fiscal year end 2004. Domestic debt securities returned approximately 10.1 percent for the 2005 fiscal year, compared to the 0.3 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 11.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment.

Defined Contribution Pension Plans

State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF)

Plan Net Assets

The SPOFF provides supplemental retirement benefits to eligible safety employees. Net assets held in trust for pension benefits increased by $51.4 million (27.2 percent) to $240.6 million at June 30, 2005 from $189.2 million at June 30, 2004.

Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

	SPOFF		IRC 457		RBF		SCPF	
	2005	2004	2005	2004	2005	2004	2005	2004
Assets								
Cash, Cash Equivalents & Receivables	$3,544	$3,190	$1,768	$1,013	$22	$30	$35	$48
Investments	237,151	186,139	441,981	370,218	676	466	20,551	20,339
Total Assets	**$240,695**	**$189,329**	**$443,749**	**$371,231**	**$698**	**$496**	**$20,586**	**$20,387**
Total Liabilities	**$122**	**$94**	**$952**	**$106**	**$625**	**$443**	**$54**	**$34**
Total Net Assets	**$240,573**	**$189,235**	**$442,797**	**$371,125**	**$73**	**$53**	**$20,532**	**$20,353**

Changes in Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

	SPOFF		IRC 457		RBF		SCPF	
	2005	2004	2005	2004	2005	2004	2005	2004
Additions								
Member Contributions	$ —	$ —	$97,452	$74,146	$ —	$ —	$552	$741
Employer Contributions	41,406	40,894	—	—	1,134	652	—	—
Investment Income	15,285	17,971	15,712	33,539	12	2	1,897	$2,881
Other Income	—	—	11	3	—	—	—	—
Total Additions	**$56,691**	**$58,865**	**$113,175**	**$107,688**	**$1,146**	**$654**	**$2,449**	**$3,622**
Deductions								
Retirement Benefits	$5,353	$4,351	$ —	$ —	$1,126	$615	$ —	$ —
Administrative Expenses	—	—	—	—	—	—	76	66
Participant Withdrawals	—	—	41,503	16,131	—	—	2,194	1,631
Total Deductions	**$5,353**	**$4,351**	**$41,503**	**$16,131**	**$1,126**	**$615**	**$2,270**	**$1,697**
Increase in Net Assets	**$51,338**	**$54,514**	**$71,672**	**$91,557**	**$20**	**$39**	**$179**	**$1,925**

Management's Discussion and Analysis

Contribution revenues were $41.4 million for fiscal year 2005, an increase of 1.2 percent from fiscal year 2004. Net investment income was $15.3 million for fiscal year 2005, representing a decrease in investment income of $2.7 million from the $18.0 million in net investment income for the 2004 fiscal year, due mainly to a lower appreciation in domestic equities and higher investment expenses.

SPOFF benefit expenses were $5.4 million for the 2005 fiscal year, an increase of $1.0 million (22.7 percent) from the 2004 fiscal year, due primarily to the increase in the number of benefit recipients in 2005.

Investments

The SPOFF invests mainly in domestic equity securities. Total SPOFF investments were $237.2 million at June 30, 2005, which was $51.1 million (27.5 percent) more than the $186.1 million in total SPOFF investments at June 30, 2004. Domestic equity securities experienced returns of approximately 8.0 percent for fiscal year 2005, compared to 12.3 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 8.1 percent. CalPERS uses a composite index to provide a benchmark for our domestic equity investment return.

Public Agency Deferred Compensation Plan (IRC 457)

Plan Net Assets

The CalPERS Board is trustee for public agency participant assets in the IRC 457 deferred compensation program. Net assets held in trust for pension benefits at June 30, 2005 were $442.8 million, an increase of $71.7 million (19.3 percent), from $371.1 million at June 30, 2004.

Additions to IRC 457 net assets consist of member contributions of $97.5 million in fiscal year 2005 compared to $74.1 million in 2004. The increase is primarily due to an increase in member participation from 17,332 at June 30, 2004 to 19,455 at June 30, 2005. Net investment income amounted to $15.7 million for fiscal year 2005, representing a decrease in investment income of $17.8 million from the $33.5 million in net investment income for fiscal year 2004, due mainly to lower appreciation in investments and higher investment expenses.

Deductions from the IRC 457 net assets consist primarily of participant withdrawals of $41.5 million, an increase of $25.4 million from the prior fiscal year of $16.1 million. The increase is due primarily to an increase in retiree withdrawals.

Investments

The IRC 457 investments were $442.0 million at June 30, 2005, which was $71.8 million more than the $370.2 million in total IRC 457 investments at June 30, 2004. IRC 457 asset allocation is participant directed.

At June 30, 2005, the IRC 457 held $312.9 million in domestic and international equity securities, an increase of $55.9 million from $257.0 million at fiscal year end 2004.

At June 30, 2005, the IRC 457 held $86.5 million in domestic debt securities, an increase of $14.8 million from $71.7 million at fiscal year end 2004.

At June 30, 2005, the IRC 457 held $42.6 million in short-term investments, an increase of $1.0 million from $41.6 million at fiscal year end 2004.

Investments — SCPF

(Dollars in Millions)

Investment Class	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Short-Term Investments	$0.5	2.4%	1.6%	1.0%	2.0%
Domestic Equity	10.5	51.2	6.0	19.2	5.9
International Equity	3.8	18.6	13.8	32.3	13.7
Domestic Debt Securities	5.8	27.8	13.8	0.5	13.9
Total or Overall Return	**$20.6**	**100.0%**	**8.7%**	**16.4%**	6.9%

Management's Discussion and Analysis

Replacement Benefit Fund (RBF)

The RBF provides replacement retirement benefits to the small percentage of retired PERF members whose CalPERS retirement benefits earned are limited by Internal Revenue Code Section 415(b). Net assets held in trust for pension benefits increased by $20,000 to $73,000 at June 30, 2005, from $53,000 at June 30, 2004.

Contribution revenues were $1.1 million for the 2005 fiscal year, an increase of $0.4 million from the 2004 fiscal year, primarily due to an increase in the number of retirees to 70 at June 30, 2005 from 40 at June 30, 2004.

The RBF incurred benefit expenses of $1.1 million for the 2005 fiscal year, an increase of $0.5 million from fiscal year 2004, primarily due to more members being eligible.

Investments
The RBF invests only in short-term securities. Total RBF investments were $676,000 at June 30, 2005, which was $210,000 more than the $466,000 in total RBF investments at June 30, 2004. Short-term investments returned approximately 2.9 percent for fiscal year 2005, compared to 1.4 percent for fiscal year 2004.

Supplemental Contributions Program Fund (SCPF)

The SCPF was established effective January 1, 2000 to provide supplemental retirement benefits to members of CalPERS and is entirely member funded. Net assets held in trust for pension benefits remained stable at $20.5 million at June 30, 2005.

Contribution revenues were $552,000 for the 2005 fiscal year, a decrease of 25.5 percent from the 2004 fiscal year, primarily due to more lump-sum payments being made in the 2004 fiscal year than in the 2005 fiscal year. Net investment income was $1.9 million for fiscal year 2005, representing a decrease in investment income of $1.0 million from $2.9 million in net investment income for fiscal year 2004, primarily due to lower appreciation of investments in 2005.

For fiscal year 2005, participant withdrawals were $2.2 million, an increase of $0.6 million (37.5 percent) from fiscal year 2004.

Investments
The SCPF investments were $20.6 million at June 30, 2005, which was $0.3 million more than the $20.3 million in total SCPF investments at June 30, 2004.

At June 30, 2005, the SCPF held $14.3 million in domestic equity and international equity securities, a decrease of $0.2 million from $14.5 million at fiscal year end 2004. Domestic equity and international equity securities experienced returns of approximately 6.0 percent and 13.8 percent for fiscal year 2005, compared to the 19.2 percent and 32.3 percent for fiscal year 2004. CalPERS benchmark returns for fiscal year 2005 were 5.9 percent and 13.7 percent, respectively. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our equity investment returns.

At June 30, 2005, the SCPF held $5.8 million in domestic debt securities, an increase of $0.3 million from $5.5 million at fiscal year end 2004. Domestic debt securities returned approximately 13.8 percent for fiscal year 2005, compared to 0.5 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 13.9 percent. CalPERS uses the Citigroup 1-10 Year Treasury as a benchmark for its domestic debt security investment returns.

At June 30, 2005, the SCPF held $492,000 in short-term investments, an increase of $144,000 from $348,000 at fiscal year end 2004. Short-term investments returned approximately 1.6 percent for fiscal year 2005, which was an improvement over fiscal year 2004.

Enterprise Funds

Employees' Health Care Fund (HCF)

Plan Activity
The HCF accounts for the activities of the CalPERS self-insured health care programs.

The self-insured health care programs incurred claims expenses of $999.5 million for the 2005 fiscal year, an increase of 12.9 percent from the 2004 fiscal year, primarily due to increases in provider pricing, and increased benefit utilization. Premium revenues were $1.1 billion for the 2005 fiscal year, an increase of 10.0 percent from the 2004

Management's Discussion and Analysis

Net Assets — Enterprise Funds

(Dollars in Thousands)

	HCF		CRF		LTCF		DCF	
	2005	2004	2005	2004	2005	2004	2005	2004
Assets								
Cash, Cash Equivalents & Receivables	$45,744	$39,919	$99,720	$100,336	$17,670	$19,220	$1,421	$364
Investments	426,528	386,467	154,393	137,234	1,597,011	1,232,519	1,525	2,996
Total Assets	**$472,272**	**$426,386**	**$254,113**	**$237,570**	**$1,614,681**	**$1,251,739**	**$2,946**	**$3,360**
Total Liabilities	**$177,244**	**$154,570**	**$246,267**	**$232,240**	**$2,437,112**	**$1,517,953**	**$2,013**	**$2,985**
Total Unrestricted Net Assets (Deficit)	**$295,028**	**$271,816**	**$7,846**	**$5,330**	**($822,431)**	**($266,214)**	**$933**	**$375**

Changes in Net Assets — Enterprise Funds

(Dollars in Thousands)

	HCF		CRF		LTCF		DCF	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues								
Self Insurance Premiums	$1,105,131	$1,042,720	$ —	$ —	$241,663	$225,128	$ —	$ —
Health Care Premiums Collected	—	—	1,520,622	1,410,584	—	—	—	—
Investment Income	10,041	5,321	2,817	1,787	124,474	141,686	51	15
Administrative Fees & Other	—	—	16,808	16,218	—	—	1,722	918
Total Revenues	**$1,115,172**	**$1,048,041**	**$1,540,247**	**$1,428,589**	**$366,137**	**$366,814**	**$1,773**	**$933**
Expenses								
Claims Expense	$999,530	$885,500	$ —	$ —	$65,369	$53,022	$ —	$ —
Increase in Estimated Liabilities	26,528	960	—	—	840,700	585,000	—	—
Health Premiums Remitted	—	—	1,520,622	1,410,584	—	—	—	—
Administrative Expenses	65,902	58,182	17,109	15,384	16,285	15,305	1,215	864
Total Expenses	**$1,091,960**	**$944,642**	**$1,537,731**	**$1,425,968**	**$922,354**	**$653,327**	**$1,215**	**$864**
Increase (Decrease) in Unrestricted Net Assets	**$23,212**	**$103,399**	**$2,516**	**$2,621**	**($556,217)**	**($286,513)**	**$558**	**$69**

fiscal year, primarily as a result of premium rate increases and enrollment growth. Net investment income was $10.0 million for the 2005 fiscal year, an increase of 88.7 percent from the 2004 fiscal year. As a result of the above, unrestricted net assets increased by $23.2 million (8.5 percent) to $295.0 million at June 30, 2005 due primarily to the increase in premium rates.

Investments

Investments of the HCF at June 30, 2005 and 2004 include highly-liquid, short-term securities and domestic debt securities. Investments increased $40.0 million from $386.5 million at June 30, 2004 to $426.5 million at June 30, 2005. The increase was due primarily to the increase in premium rates.

Public Employees' Contingency Reserve Fund (CRF)

The CRF was established to fund administrative costs related to the CalPERS health care programs and to provide a contingency reserve for potential increases in future health care premium rates or health care benefit costs. The CRF also accounts for public agency health payments and remittances to contracted health care providers. Administrative fees earned by the CRF were $16.8 million for the 2005 fiscal year, an increase of 3.7 percent from 2004 fiscal year of $16.2 million. The increase was due mainly to a premium rate increase during the 2005 fiscal year. Net investment income was $2.8 million for the 2005 fiscal year, an increase of 55.6 percent from the 2004 fiscal year. Unrestricted net assets increased by $2.5 million (47.2 percent) to $7.8 million at June 30, 2005.

Public agencies remitted $1.5 billion for payments to contracted health care providers in fiscal year 2005. This is a 7.1 percent increase of $0.1 billion over 2004, due to a premium rate increase.

Investments

Investments of the CRF at June 30, 2005 and 2004 included only highly-liquid, short-term securities, as investment balances are used to fund operating cash flows. Investments increased $17.2 million from $137.2 million at June 30, 2004 to $154.4 million at June 30, 2005.

Public Employees' Long-Term Care Fund (LTCF)

The LTCF, which provides long-term care insurance to participating members, incurred claims expenses of $65.4 million for the 2005 fiscal year, an increase of 23.4 percent from the 2004 fiscal year, due mainly to an increase in benefit utilization. Premium revenues were $241.7 million for the 2005 fiscal year, an increase of 7.4 percent from the 2004 fiscal year, primarily due to a premium rate increase. Net investment income amounted to $124.5 million for the 2005 fiscal year, a decrease in investment income of 12.1 percent from the $141.7 million in net investment income for the 2004 fiscal year, due mainly to lower appreciation in investments in 2005. The unrestricted net assets of the CalPERS Long-Term Care Program decreased by $556.2 million to a negative $822.4 million during the 2005 fiscal year as a result of investment income in recent years being less than the actuarial expectations, and an increase in liabilities due to the significant growth of inflation adjusted policies. The LTCF is in the process of reviewing its current policies and exploring different options to address the deficit.

Investments — LTCF

(Dollars in Millions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Domestic Equity	$641.1	40.1%	6.0%	19.2%	5.9%
International Equity	298.6	18.8	13.8	32.6	13.7
Domestic Debt Securities	577.3	36.1	8.5	0.3	11.5
Real Estate	80.0	5.0	N/A	N/A	N/A
Total or Overall Return	**$1,597.0**	**100.0%**	**8.6%**	**14.2%**	**7.9%**

Management's Discussion and Analysis

Investments

Total LTCF investments were $1.6 billion at June 30, 2005, which was $0.4 billion more than the $1.2 billion in total LTCF investments at June 30, 2004.

At June 30, 2005, the LTCF held $939.7 million in domestic equity and international equity securities, an increase of $159.8 million from $779.9 million at fiscal year end 2004. Domestic equity and international equity securities experienced returns of approximately 6.0 percent and 13.8 percent for the 2005 fiscal year, compared to the 19.2 percent and 32.6 percent for fiscal year 2004. CalPERS benchmark returns for fiscal year 2005 were 5.9 percent and 13.7 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market environment.

At June 30, 2005, the LTCF held $577.3 million in domestic debt securities, an increase of $124.7 million from $452.6 million at fiscal year end 2004. Domestic debt securities returned approximately 8.5 percent, compared to 0.3 percent for fiscal year 2004. CalPERS benchmark return for fiscal year 2005 was 11.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market environment.

Public Employees' Retirement System Deferred Compensation Fund (DCF)

The purpose of the DCF is to maintain the financial records associated with the investment and administrative management services CalPERS offers to other governments' defined contribution plans. The fund recognizes as revenue fees charged other government clients for these services. The fund also records as expenses the costs incurred by CalPERS staff to support these services. Net income is retained in the fund balance to further expand the amount and types of deferred compensation plan management services. Fees are assessed to the State Savings Plus program to manage one plan option, and certain investment portfolios of the IRC 457 public agency program.

The DCF reported administrative and investment management revenues of $1.8 million for the 2005 fiscal year, an increase of 100.0 percent from the 2004 fiscal year. Expenses necessary to support these services were $1.2 million for the 2005 fiscal year, which was a 33.3 percent increase from the 2004 fiscal year. Net income in fiscal year 2005 from investment of the DCF fund balance was $51,000, an increase of 240.0 percent from the 2004 fiscal year, due mainly to more fees earned. Unrestricted net assets increased by $558,000 (148.8 percent) to $933,000 at June 30, 2005.

Investments

Investments of the DCF at June 30, 2005 and 2004 included only highly-liquid, short-term securities. Investments decreased $1.5 million from $3.0 million at June 30, 2004 to $1.5 million at June 30, 2005.

Requests For Information

This Financial Report is designed to provide a general overview of CalPERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703, or by calling **888 CalPERS** (or **888**-225-7377).

Basic Financial Statements

Statement of Fiduciary Net Assets

As of June 30, 2005 (with Comparative Totals, as of June 30, 2004)

(Dollars in Thousands)

	Pension Trust Funds					
	PERF	LRF	JRF	JRF II	VFF	SPOFF
Assets						
Cash & Cash Equivalents	**$266,599**	**$875**	**$4**	**$ —**	**$34**	**$ 1**
Receivables						
Member, Public Agency, State & School	$1,497,879	$24	$12,007	$2,823	$374	$3,532
Investment Sales & Other	2,866,067	—	—	—	—	—
Interest & Dividends	752,726	1	89	25	—	11
Due from Other Funds	6,507	6	115	60	15	—
Other	9,583	—	—	—	—	—
Total Receivables	**$5,132,762**	**$31**	**$12,211**	**$2,908**	**$389**	**$3,543**
Investments, at Fair Value						
Short-Term Investments:						
Domestic	$4,016,875	$ —	$5,195	$6,900	$2,346	$200
International	1,245,904	—	—	—	—	—
Securities Lending Collateral	36,139,100	—	—	—	—	—
Equity Securities:						
Domestic	76,043,988	40,272	—	56,188	865	236,951
International	38,794,230	13,177	—	30,928	504	—
Debt Securities:						
Domestic	49,824,120	84,614	—	61,450	937	—
International	4,516,658	—	—	—	—	—
Real Estate Equities:	18,746,446	—	—	16,602	288	—
Debt on Real Estate Equities	(9,169,309)	—	—	—	—	—
Alternative Investments	9,848,966	—	—	—	—	—
Total Investments	**$230,006,978**	**$138,063**	**$5,195**	**$172,068**	**$4,940**	**$237,151**
Capital Assets, at Cost, Net of Accumulated Depreciation & Other Assets	**$352,633**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Total Assets	**$235,758,972**	**$138,969**	**$17,410**	**$174,976**	**$5,363**	**$240,695**
Liabilities						
Retirement & Other Benefits in Process of Payment	$748,887	$657	$ 131	$ 72	$7	$ —
Investment Purchases & Other	8,719,450	—	—	—	—	—
Due to State of California	1,038	—	—	—	—	—
Liabilities to Brokers for Securities Lending	36,139,100	—	—	—	—	—
Due to Other Funds	196	27	—	—	18	—
Other	519,420	190	35	3,030	2,288	122
Total Liabilities	**$46,128,091**	**$874**	**$166**	**$3,102**	**$2,313**	**$122**
Net Assets Held in Trust for Pension Benefits (see Required Supplemental Schedule of Funding Progress)	**$189,630,881**	**$138,095**	**$17,244**	**$171,874**	**$3,050**	**$240,573**

The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Assets (continued)

As of June 30, 2005 (with Comparative Totals, as of June 30, 2004)

(Dollars in Thousands)

Pension Trust Funds			Agency Fund	Totals	
IRC 457	RBF	SCPF	OASI	2005	2004
$ —	**$—**	**$—**	**$6,062**	**$273,575**	**$319,632**
$ —	$16	$33	$ —	$1,516,688	$1,101,519
—	—	—	—	2,866,067	1,375,875
610	6	2	—	753,470	662,673
—	—	—	—	6,703	7,430
1,158	—	—	—	10,741	3,809
$1,768	**$22**	**$35**	**$ —**	**$5,153,669**	**$3,151,306**
$42,595	$676	$492	$ —	$4,075,279	$3,037,940
—	—	—	—	1,245,904	572,409
—	—	—	—	36,139,100	25,454,352
296,813	—	10,487	—	76,685,564	69,441,354
16,108	—	3,817	—	38,858,764	33,656,580
$86,465	—	5,755	—	50,063,341	38,414,468
—	—	—	—	4,516,658	4,778,873
—	—	—	—	18,763,336	21,669,726
—	—	—	—	(9,169,309)	(9,589,699)
—	—	—	—	9,848,966	8,321,345
$441,981	**$676**	**$20,551**	**$ —**	**$231,027,603**	**$195,757,348**
$ —	**$ —**	**$ —**	**$ —**	**$352,633**	**$267,510**
$443,749	**$698**	**$20,586**	**$6,062**	**$236,807,480**	**$199,495,796**
$ —	$ —	$ 35	$ —	$749,789	$671,093
—	—	—	—	8,719,450	4,924,194
—	—	—	5,967	7,005	—
—	—	—	—	36,139,100	25,454,352
—	—	—	95	336	502
952	625	19	—	526,681	9,497
$952	**$625**	**$54**	**$6,062**	**$46,142,361**	**$31,059,638**
$442,797	**$73**	**$20,532**	**$ —**	**$190,665,119**	**$168,436,158**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2005 (with Comparative Totals for the Year Ended June 30, 2004)

(Dollars in Thousands)

	Pension Trust Funds									Totals	
	PERF	LRF	JRF	JRF II	VFF	SPOFF	IRC 457	RBF	SCPF	2005	2004
Additions											
Retirement Contributions											
Members	$3,176,781	$20	$10,417	$8,217	$ —	$ —	$97,452	$ —	$552	$3,293,439	$2,360,781
Employers	5,774,120	—	12,038	21,195	211	41,406	—	1,134	—	5,850,104	4,333,372
Appropriation from the State of California General Fund	—	—	115,040	—	—	—	—	—	—	115,040	95,302
Total Retirement Contributions	**$8,950,901**	**$20**	**$137,495**	**$29,412**	**$211**	**$41,406**	**$97,452**	**$1,134**	**$552**	**$9,258,583**	**$6,789,455**
Investment Income											
Net Appreciation (Depreciation) in Fair Value of Investments	$16,017,457	$11,920	$ —	$14,378	$229	$16,573	$11,695	$ —	$1,888	$16,074,140	$18,549,205
Interest	2,167,640	655	234	103	—	31	4,279	12	9	2,172,963	1,975,109
Dividends	2,411,632	—	—	335	12	—	78	—	—	2,412,057	1,877,755
Real Estate	1,930,707	—	—	—	—	—	—	—	—	1,930,707	1,822,061
Other Income	1,312,779	—	—	—	—	—	1,453	—	—	1,314,232	1,388,584
Securities Lending Income	806,081	—	—	—	—	—	—	—	—	806,081	374,494
Less Investment Expenses:											
Costs of Lending	(691,316)	—	—	—	—	—	—	—	—	(691,316)	(271,460)
Real Estate	(1,050,909)	—	—	—	—	—	—	—	—	(1,050,909)	(979,453)
Other	(1,010,343)	—	—	—	—	(1,319)	(1,793)	—	—	(1,013,455)	(391,216)
Net Investment Income	**$21,893,728**	**$12,575**	**$234**	**$14,816**	**$241**	**$15,285**	**$15,712**	**$12**	**$1,897**	**$21,954,500**	**$24,345,079**
Other Income	**$473**	**$1**	**$2,663**	**$ —**	**$ —**	**$ —**	**$11**	**$ —**	**$ —**	**$3,148**	**$10,746**
Total Additions	**$30,845,102**	**$12,596**	**$140,392**	**$44,228**	**$452**	**$56,691**	**$113,175**	**$1,146**	**$2,449**	**$31,216,231**	**$31,145,280**
Deductions											
Retirement, Death & Survivor Benefits	$8,434,119	$7,792	$126,609	$904	$82	$5,353	$ —	$1,126	$ —	$8,575,985	$7,773,349
Refund of Contributions	155,236	979	88	340	—	—	—	—	—	156,643	152,181
Administrative Expenses	208,965	318	1,061	425	100	—	—	—	76	210,945	190,010
Participant Withdrawals	—	—	—	—	—	—	41,503	—	2,194	43,697	17,762
Total Deductions	**$8,798,320**	**$9,089**	**$127,758**	**$1,669**	**$182**	**$5,353**	**$41,503**	**$1,126**	**$2,270**	**$8,987,270**	**$8,133,302**
Increase in Net Assets	**$22,046,782**	**$3,507**	**$12,634**	**$42,559**	**$270**	**$51,338**	**$71,672**	**$20**	**$179**	**$22,228,961**	**$23,011,978**
Net Assets Held in Trust for Pension Benefits											
Beginning of Year	**$167,584,099**	**$134,588**	**$4,610**	**$129,315**	**$2,780**	**$189,235**	**$371,125**	**$53**	**$20,353**	**$168,436,158**	**$145,424,180**
End of Year	**$189,630,881**	**$138,095**	**$17,244**	**$171,874**	**$3,050**	**$240,573**	**$442,797**	**$73**	**$20,532**	**$190,665,119**	**$168,436,158**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Assets and Liabilities — Agency Fund

For the Year Ended June 30, 2005

(Dollars in Thousands)

	OASI			
	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash Held by State Treasurer	$6,291	$ —	$229	$6,062
Total Assets	**$6,291**	**$ —**	**$229**	**$6,062**
Liabilities				
Due to State of California General Fund	$20	$ —	$ —	$20
Contributions Due to Public Agencies	6,061	—	114	5,947
Due to Other Funds	210	—	115	95
Total Liabilities	**$6,291**	**$ —**	**$229**	**$6,062**

The accompanying notes are an integral part of these financial statements.

Statement of Net Assets — Proprietary Funds

As of June 30, 2005 (with Comparative Totals, as of June 30, 2004)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2005	2004
Assets						
Current Assets						
Cash & Cash Equivalents	**$533**	**$1,011**	**$330**	**$ —**	**$1,874**	**$8,835**
Receivables						
Member, Public Agency, State & School	2,962	97,785	17,335	—	118,082	113,422
Interest & Dividends	2,876	924	5	4	3,809	1,704
Management Fees	—	—	—	1,417	1,417	363
Due from Other Funds	39,373	—	—	—	39,373	35,515
Other	—	—	—	—	—	—
Total Receivables	**$45,211**	**$98,709**	**$17,340**	**$1,421**	**$162,681**	**$151,004**
Investments, at Fair Value						
Short-Term Investments:						
Domestic	$355,823	$154,393	$58	$1,525	$511,799	$472,898
Equity Securities:						
Domestic	—	—	641,054	—	641,054	523,760
International	—	—	298,591	—	298,591	256,067
Debt Securities:						
Domestic	70,705	—	577,308	—	648,013	506,491
Real Estate Equities	—	—	80,000	—	80,000	—
Total Investments	**$426,528**	**$154,393**	**$1,597,011**	**$1,525**	**$2,179,457**	**$1,759,216**
Total Assets	**$472,272**	**$254,113**	**$1,614,681**	**$2,946**	**$2,344,012**	**$1,919,055**
Liabilities						
Current Liabilities						
Insurance Premiums & Claims in Process of Payment	$10,769	$204,319	$5,390	$ —	$220,478	$205,528
Estimated Insurance Claims Due	159,404	—	78,988	—	238,392	132,876
Management Fees	—	—	—	798	798	1,128
Due to Other Funds	3,915	40,252	359	1,215	45,741	42,443
Other	3,156	1,696	107,663	—	112,515	42,773
Total Current Liabilities	**$177,244**	**$246,267**	**$192,400**	**$2,013**	**$617,924**	**$424,748**
Long-Term Liabilities						
Estimated Liability for Future Policy Benefits	$ —	$ —	$2,244,712	$ —	$2,244,712	$1,483,000
Total Long-Term Liabilities	**$ —**	**$ —**	**$2,244,712**	**$ —**	**$2,244,712**	**$1,483,000**
Total Liabilities	**$177,244**	**$246,267**	**$2,437,112**	**$2,013**	**$2,862,636**	**$1,907,748**
Total Unrestricted Net Assets (Deficit)	**$295,028**	**$7,846**	**($822,431)**	**$933**	**($518,624)**	**$11,307**

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses, and Changes in Fund Net Assets — Proprietary Funds

For the Year Ended June 30, 2005 (with Comparative Totals for the Year Ended June 30, 2004)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2005	2004
Operating Revenues						
Self-Insurance Premiums	$1,105,131	$ —	$241,663	$ —	$1,346,794	$1,267,848
Health Care Premiums Collected	—	1,520,622	—	—	1,520,622	1,410,584
Administrative Fees Earned	—	16,349	—	—	16,349	15,851
Investment Management Fees Earned	—	—	—	460	460	918
Other	—	459	—	1,262	1,721	367
Total Operating Revenues	**$1,105,131**	**$1,537,430**	**$241,663**	**$1,722**	**$2,885,946**	**$2,695,568**
Operating Expenses						
Claims Expense	$999,530	$ —	$65,369	$ —	$1,064,899	$938,522
Increase in Estimated Liabilities	26,528	—	840,700	—	867,228	585,960
Health Care Premiums Remitted to Insurance Carriers	—	1,520,622	—	—	1,520,622	1,410,584
Administrative Expenses	65,902	17,109	16,285	1,215	100,511	89,735
Total Operating Expenses	**$1,091,960**	**$1,537,731**	**$922,354**	**$1,215**	**$3,553,260**	**$3,024,801**
Operating Income (Loss)	**$13,171**	**($301)**	**($680,691)**	**$507**	**($667,314)**	**($329,233)**
Non-Operating Revenues						
Net (Depreciation) Appreciation in Fair Value of Investments	($286)	$ —	$117,243	$ —	$116,957	$136,237
Interest, Dividends & Other Investment Income	10,327	2,817	7,231	51	20,426	12,572
Total Non-Operating Revenues	**$10,041**	**$2,817**	**$124,474**	**$51**	**$137,383**	**$148,809**
Change in Unrestricted Net Assets	**$23,212**	**$2,516**	**($556,217)**	**$558**	**($529,931)**	**($180,424)**
Total Unrestricted Net Assets (Deficit)						
Beginning of Year	**$271,816**	**$5,330**	**($266,214)**	**$375**	**$11,307**	**$191,731**
End of Year	**$295,028**	**$7,846**	**($822,431)**	**$933**	**($518,624)**	**$11,307**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows — Proprietary Funds

For the Year Ended June 30, 2005 (with Comparative Totals for the Year Ended June 30, 2004)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2005	2004
Cash Flows From Operating Activities						
Self-Insurance Premiums Collected	$1,105,299	$ —	$241,632	$ —	$1,346,931	$2,676,140
Health Care Premiums Collected	—	1,516,874	—	—	1,516,874	—
Claims Paid	(997,745)	—	(64,331)	—	(1,062,076)	(936,878)
Health Care Premiums Remitted	—	(1,516,874)	—	—	(1,516,874)	(1,410,584)
Other (Payments) Receipts	(75,399)	8,928	61,136	(1,519)	(6,854)	(40,051)
Net Cash (Used) Provided by Operating Activities	**$32,155**	**$8,928**	**$238,437**	**($1,519)**	**$278,001**	**$288,627**
Cash Flows From Investing Activities						
Proceeds from Sales of Investments	$ —	$ —	$ —	$ —	$ —	$ —
Purchases of Investments	(17,134)	—	(247,250)	—	(264,384)	(170,878)
Net Change in Short-Term Investments	(23,213)	(17,159)	—	1,471	(38,901)	(128,445)
Interest & Dividends Received	8,717	2,331	7,227	48	18,323	13,684
Net Cash Provided (Used) by Investing Activities	**($31,630)**	**($14,828)**	**($240,023)**	**$1,519**	**($284,962)**	**($285,639)**
Net Increase (Decrease) in Cash & Cash Equivalents	$524	($5,900)	($1,586)	$ —	($6,961)	$2,988
Cash & Cash Equivalents, Beginning of Year	**$9**	**$6,911**	**$ 1,916**	**$ —**	**$8,836**	**$5,847**
Cash & Cash Equivalents, End of Year	**$533**	**$1,011**	**$330**	**$ —**	**$1,875**	**$8,835**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	$13,171	($301)	($680,691)	$507	($667,314)	($329,233)
Estimated Insurance Claims Due to Health Care Providers	26,528	—	—	—	26,528	960
Changes in Assets & Liabilities:						
Receivables:						
Member, Public Agency, State & School	168	(4,797)	(31)	—	(4,660)	(527)
Due from Other Funds	(3,858)	—	—	—	(3,858)	1,186
Other	—	—	—	(1,054)	(1,054)	(139)
Insurance Premiums & Claims in Process of Payment	1,785	12,126	1,038	—	14,949	16,136
Liability for Future Policy Benefits	—	—	840,700	—	840,700	585,000
Due to Other Funds	2,914	1,148	(122)	(642)	3,298	(1,371)
Other	(8,553)	752	77,543	(330)	69,412	16,615
Net Cash (Used) Provided by Operating Activities	**$32,155**	**$8,928**	**$238,437**	**($1,519)**	**$278,001**	**$288,627**
Noncash Investing, Capital & Financing Activities:						
Noncash Change in Fair Value of Investments in Securities	**($286)**	**$ —**	**$117,243**	**$ —**	**$116,957**	**$136,237**

The accompanying notes are an integral part of these financial statements.

Notes to the Basic Financial Statements

1. General Description of the Plan

General

The State Employees' Retirement System, the predecessor to the Public Employees' Retirement System of the State of California (CalPERS), or the "System," was created after voters approved a constitutional amendment authorizing legislation to establish a pension system for State employees. Such legislation became effective January 1, 1932. CalPERS has expanded to include, among others, employees of local agencies which elect to participate in the System. The Board of Administration (Board) of CalPERS administers a total of 14 funds, including five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Volunteer Firefighters' Length of Service Award Fund (VFF); four defined contribution retirement plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF); two health care plans: the Public Employees' Health Care Fund (HCF) and the Public Employees' Contingency Reserve Fund (CRF); and three other plans: the Public Employees' Long-Term Care Fund (LTCF), the Public Employees' Deferred Compensation Fund (DCF), and the Old Age & Survivors' Insurance Revolving Fund (OASI).

Reporting Entity

The basic financial statements of CalPERS include fund financial statements reporting the financial activities of all of the above funds and assets under trust. The CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the System pursuant to the State Constitution, Article XVI, Section 17. CalPERS is a unit of the State of California State and Consumer Services Agency; however, CalPERS is not subject to administrative direction by any department, commission, board, bureau, or agency of the State. As such, CalPERS is classified as a component unit of the State of California for financial reporting purposes, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 39.

CalPERS financial statements are included in fiduciary and proprietary funds in the State of California Comprehensive Annual Financial Report.

Defined Benefit Pension Plans

The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. California Government Code Section 50951 created the VFF as an award system that provides benefits based on members' years of service and age. VFF enrollment, receipt of an award, and service credit shall not be construed as a retirement, retirement allowance or benefit, or as retirement system service credit, respectively. However, for financial statement purposes, the VFF is included as part of the pension trust funds.

The State of California and 1,523 public agencies and schools (representing more than 2,500 entities) contribute to the PERF, JRF, and JRF II, which are agent multi-employer defined benefit pension plans. CalPERS acts as the common investment and administrative agent for the member agencies, including schools (for classified employees). The LRF is a single-employer defined benefit pension plan for the State of California. The VFF is an agent multi-employer defined benefit pension plan with 61 participating fire departments. The VFF provides cities, counties, or districts that have fire departments with volunteer firefighting members the opportunity to offer such members an award for lifelong and faithful volunteer service.

Members of the PERF, LRF, JRF, and JRF II become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service. VFF members become vested after 10 years of credited service and are eligible to receive an award payment at age 60.

Notes to the Basic Financial Statements

The PERF was established in 1932, the LRF in 1947, the JRF in 1937, JRF II in 1994, and the VFF in 1980.
As of June 30, 2005 and 2004, the number of affiliated employers for the PERF, LRF, JRF, JRF II, and VFF are as follows:

	2005	2004
Public Employees' Retirement Fund		
State	1	1
School	61	61
Public Agency	1,462	1,443
Total Employers — Public Employees' Retirement Fund	**1,524**	**1,505**
Legislators' Retirement Fund	**1**	**1**
Judges' Retirement Fund	**59**	**59**
Judges' Retirement Fund II	**59**	**59**
Volunteer Firefighters' Award Fund	**61**	**61**

As of June 30, 2005 and 2004, benefit recipients and members in the PERF, LRF, JRF, JRF II, and VFF consisted of the following:

2005

	PERF								
	State	School	Public Agency	Total PERF	LRF	JRF	JRF II	VFF	Total
Retirees	133,244	126,203	108,729	368,176	156	1,055	2	117	369,506
Survivors & Beneficiaries	23,358	18,341	15,219	56,918	110	551	7	—	57,586
Members									
Active	236,000	300,058	253,137	789,195	14	835	748	402	791,194
Inactive	74,672	80,316	72,799	227,787	33	82	—	3,147	231,049
Total	**467,274**	**524,918**	**449,884**	**1,442,076**	**313**	**2,523**	**757**	**3,666**	**1,449,335**

2004

	PERF								
	State	School	Public Agency	Total PERF	LRF	JRF	JRF II	VFF	Total
Retirees	127,533	106,157	118,336	352,026	155	1,027	2	80	353,290
Survivors & Beneficiaries	25,071	17,028	19,147	61,246	107	531	4	—	61,888
Members									
Active	245,670	302,081	256,222	803,973	17	894	690	1,070	806,644
Inactive	63,815	70,533	63,746	198,094	40	89	—	2,483	200,706
Total	**462,089**	**495,799**	**457,451**	**1,415,339**	**319**	**2,541**	**696**	**3,633**	**1,422,528**

Notes to the Basic Financial Statements

The membership consists of the following categories.

PERF

- *Safety* — includes California Highway Patrol, peace officers, firefighters, and other employees whose principal duties are in active law enforcement or fire prevention and suppression work, or who occupy positions designated by law as safety member positions.
- *Schools* — includes non-teaching, non-certificated school employees.
- *State Industrial* — includes all employees of the Department of Corrections and the California Youth Authority who are not safety members.
- *General* — includes all other members, defined by statute as "miscellaneous" members.

LRF

- State Legislators
- Constitutional Officers
- Legislative Statutory Officers

JRF

- *Judges* — includes Supreme Court, Courts of Appeal, and Superior Courts appointed or elected before November 9, 1994.

JRF II

- *Judges* — includes Supreme Court, Courts of Appeal and Superior Courts appointed or elected on or after November 9, 1994.

VFF

- Volunteer Firefighters

Financing

The benefits for the PERF, LRF, JRF, and JRF II are funded by contributions from members and employers, and earnings from investments. The benefits for the VFF are funded solely by contributions from employers and earnings from investments. Member and employer contributions for the PERF, LRF, JRF, and JRF II are a percentage of applicable member compensation. Member contribution rates for the PERF, LRF, JRF, and JRF II are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by State statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump-sum contributions made when agencies first join the Public Employees' Retirement Fund, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $133 to $863 monthly. For the fiscal year ended June 30, 2005, the required contribution rates for active plan members are as follows.

PERF	
State Employees:	
Miscellaneous & Industrial	5% or 6%
Miscellaneous & Industrial — Second Tier	0%
Safety	6%
Peace Officers & Firefighters	8%
California Highway Patrol	8%
Classified School Employees	7%
Public Agency Employees	5% to 9%
LRF	0%
JRF	8%
JRF II	8%
VFF	Non-Contributory

These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits.

The State of California, pursuant to the Memoranda of Understanding with the employee unions, agreed to a temporary cessation of employee retirement contributions for the 2004 fiscal year. This cessation of employee retirement contributions was still in effect for the first three months of the 2005 fiscal year. After the first three months of the 2005 fiscal year, employee contribution rates returned to the usual statutory 5 percent or 6 percent.

All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in the retirement plans. CalPERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, the benefit formula, and highest average compensation over an established period of one year to three years. For the VFF, highest average compensation is not a consideration in determining a monthly allowance. All plans provide death and disability benefits except the VFF, which does not provide disability benefits. Within the PERF, the benefit provisions for the State and school employees are established by statute. The benefits for the public agencies are established by contract with the System, in accordance with the provisions of the Public Employees' Retirement Law. The benefits for the LRF are established in accordance with the provisions of the Legislators' Retirement Law. The benefits for the JRF are established in accordance with the provisions of the Judges' Retirement Law. The benefits for the JRF II are established in accordance with the provisions of the Judges' Retirement System II Law. The benefits for the VFF are established in accordance with the provisions of the Volunteer Firefighters' Length of Service Award Act.

In November 1990, Article IV, Section 4.5 was added to the State Constitution by adopting Proposition 140. This section effectively prohibited future Legislators from earning State retirement benefits for service in the Legislature on or after November 7, 1990, though it recognized vested pension benefits that had accrued before that date.

Due to the effects of Proposition 140, the Legislators' Retirement Fund is in transition. The number of Legislators eligible to participate in the LRF is declining as incumbent Legislators leave office and are replaced by new Legislators who are not eligible to participate in the program. Eventually, the only active members in the fund will be approximately 16 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and approximately four legislative Statutory Officers.

Costs of administering the funds are financed through contributions and investment earnings of the funds.

Termination

Upon separation from the retirement plans, members' accumulated employee contributions are refundable with interest credited through the date of refund, as required by applicable laws. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

In the event that public agencies elect to terminate their contracts with the retirement plans, accumulated member and employer contributions, interest, and the related liability for benefits may be transferred to the employers. If amounts are not transferred to the employer, sufficient assets required to cover the related liability for benefits are retained in the retirement plans. Excess assets above those required, if any, are returned to the employer, while the employer is billed for any deficiency in assets.

Defined Contribution Plans

SPOFF

The State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF) is a defined contribution pension plan established by Chapter 820 of the 1998 Statutes. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code, and is intended to supplement the retirement benefits provided by the PERF to eligible correctional officers employed by the State of California.

Contributions to the plan are funded entirely by the employer, with a contribution rate of 2 percent of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a Memorandum of Understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to participants will depend only on the amount contributed to participant's account and earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 2005 and 2004, there were 34,922 and 34,903 participants, respectively.

IRC 457

The Public Agency Deferred Compensation Program (IRC 457) is an Internal Revenue Code Section 457(g) defined contribution plan administered by State Street Bank & Trust Company (acting as an agent of CalPERS) to provide benefits at retirement to public agency employees. Plan participation is voluntary to employees of participating public agencies, and contributions are separate from the defined benefit contributions made to CalPERS.

Members may contribute up to the limits established under the Internal Revenue Code. At June 30, 2005 and 2004, there were 19,455 and 17,332 participants, respectively, with account balances.

Members of the plan are allowed to change their contribution amount, transfer account balances among 14 investment options, or change the contribution percentages designated to each option on a daily basis. The 14 investment options are: Money Market Fund, Stable Fixed Income Fund, Bond Fund, S&P 500 Equity Index Fund, Active Large Cap Equity Fund, Russell 2000 Index Fund, Active Small Cap Equity Fund, International Equity Fund, Conservative Allocation Fund, Moderate Allocation Fund, Aggressive Allocation Fund, Insured Money Market Account, Certificate of Deposit, and the Self-Managed Options. Members may access their funds upon retirement, separation from employment, or other distributions as allowed under the Internal Revenue Code. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions.

RBF

The Replacement Benefit Fund (RBF) was established by Chapter 938 of the 1995 Statutes and initially funded in 1998 to provide benefits to members of the PERF whose retirement benefit exceeds Internal Revenue Code Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan.

The RBF is funded on a "pay-as-you-go" basis. That is, money collected from an employer during any calendar year must be paid to the retiree during that same year. Employer contributions must be in amounts "equivalent to" the benefits not paid as a result of the limitations of IRC Section 415(b). CalPERS calculates the member's retirement allowance based on the member's choice of retirement option. CalPERS also is responsible for calculating the applicable dollar limit under IRC Section 415(b), and setting the employer rates. At June 30, 2005 and 2004, there were 70 and 40 retirees, respectively, in the RBF.

SCPF

The Supplemental Contributions Program Fund (SCPF) was established January 1, 2000 by Chapter 307 of the 1999 Statutes, as a separate trust fund for the Supplemental Contributions Program (program), a defined contribution plan that provides supplemental benefits at retirement to members of CalPERS. The program is a qualified plan under Section 401(a) of Title 26 of the United States Code, administered by CalPERS.

Currently, the program is available only to State of California employees who are members of CalPERS. The program is entirely member funded, and participation is voluntary. Participant contributions are made on an after-tax basis and are separate from the defined benefit contributions made to CalPERS. Participants may be able to contribute to a deferred compensation or 401(k) plan in conjunction with the program, if the participant remains within the Internal Revenue Code Section 415(c) limits. Distributions are allowed only at retirement or permanent separation from employment. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions. At June 30, 2005 and 2004, there were 873 and 1,010 participants in the SCPF, respectively.

Other Funds Administered by CalPERS

OASI

The Old Age & Survivors' Insurance Revolving Fund (OASI) was established to consolidate the collection and payment for California public agencies of employee and employer contributions under the provisions of the federal Social Security regulations.

Federal legislation was enacted on October 21, 1986, which required direct remittance of Social Security contributions by individual public agencies and eliminates the intermediary collection and remittance of such contributions by individual public agencies and by State Social Security agencies, such as the OASI. As such, effective January 1, 1987, the OASI stopped receiving contributions from public agencies. Since then the OASI fund has operated in the capacity of an inermediary in the reconciliation of past year's payroll contributions to the federal government and to reimburse the PERF for OASI contract management services. As reconciliations are completed, amounts will be collected and transmitted to the federal government or returned to the local governments. If any liabilities are owed which the OASI cannot collect, the State of California or the appropriate public agency is responsible for payment.

HCF

The Public Employees' Health Care Fund (HCF) was established under the Public Employees' Medical and Hospital Care Act (PEMHCA) as of July 1, 1988. The self-funded plans, PERS Choice and PERSCare, are risk pools available to all entities that contract for health insurance coverage under PEMHCA. Having all members in a single risk pool spreads catastrophic claims over a large base and minimizes administrative expenses. PERS Choice and PERSCare retain all the risk of loss of allowable health claims. Fund members are not subject to a supplemental assessment in the event of deficiencies. Premium rates for PERS Choice and PERSCare are set by the Board based on a trend analysis of the historic cost, utilization, demographics, and administrative expenses of the HCF to provide for the claims incurred and the actuarially determined required level of reserves.

PERS Choice and PERSCare rely on operating cash flows and investment income to fund health benefit payments. During the 2005 fiscal year, the Board continued to increase member premiums and modified the plans' benefit structures to mitigate the impact of increasing costs associated with rapid enrollment growth, increases in provider pricing, and increased benefit utilization.

Management believes that the current sources of funding for PERS Choice and PERSCare will be adequate to provide for benefits of the plans.

Public agencies participating in PERS Choice and PERSCare are required to make periodic premium payments based on rates as established by CalPERS. Plan members pay the difference between the premium rate and the employers' contribution. Administrative costs are financed through investment earnings.

CRF

The Public Employees' Contingency Reserve Fund (CRF) was established in 1962, with the passage of PEMHCA, to fund administrative costs related to the PEMHCA program, and as a contingency reserve for such items as increases in future rates or in future benefits. PEMHCA was expanded to include local public agency employees on a contract basis in 1967. The CRF is reimbursed by the State and contracting public agencies for costs incurred for administering the program.

PEMHCA establishes eligibility rules for the following:

- retirees and beneficiaries receiving health care benefits;
- terminated plan members entitled to but not yet receiving benefits; and
- active plan members.

Administrative costs include direct costs of the program and a proportionate share of indirect costs allocated to the CRF by the PERF. The administrative fee is determined as a percentage of insurance premiums paid by the employers. The administrative fee for the year ended June 30, 2005 and 2004 was 0.43 percent and 0.44 percent, respectively. Contribution rates are reviewed annually and are adjusted, if needed, to cover budgeted administrative costs.

The CRF also collects health care premiums from annuitants whose retirement allowances are not sufficient to pay their total contributions for the health care plans in which they are enrolled. The CRF remits these amounts to the Public Employees' Retirement Fund, which pays the appropriate health care plan.

Public agency employers whose employees do not elect PERS Choice and PERSCare submit the provider-determined, Board-approved premiums to the CRF which, in turn submits the premiums to the respective provider.

At June 30, 2005 and 2004, 1,142 entities, participated in health insurance coverage under PEMHCA.

LTCF

The Public Employees' Long-Term Care Fund (LTCF) began providing self-insured long-term care plans in 1995. The LTCF operates by providing long-term care coverage to enrolled members under the Public Employees' Long-Term Care Act (PERL, Chapter 15). The fund contracts with a third party to administer the program. Long-term care coverage is offered to all public employees (active or retired), their spouses, parents, parents-in-law, and siblings. The LTCF is a member-paid program with no contributions from employers. Premium rates are recommended to the Board by the program actuary and are set by the Board. Prospective enrollees apply directly to the program for long-term care coverage.

As of June 30, 2005, there are 173,807 enrollees and 2,853 participants receiving benefits. As of June 30, 2004, there were 172,792 enrollees and 2,393 participants receiving benefits.

The unrestricted net deficit in the LTCF of $822,431,000 at June 30, 2005 is attributable to an increase in estimated liabilities due to significant growth of inflation-adjusted policies. The LTCF is in the process of reviewing its current policies and exploring different options to address the deficit.

DCF

The Public Employees' Retirement System Deferred Compensation Fund (DCF) accounts for revenues and expenses associated with administrative and investment management services provided to other governments by CalPERS staff. The services provided assist other governments with their administration of deferred compensation plans. Revenues come from fees assessed the State of California Department of Personnel Administration, sponsor of the State of California Savings Plus Program, for managing one investment portfolio, and various State of California public agencies for managing 14 investment portfolios offered in the CalPERS IRC 457 plan. Expenses of the DCF are costs incurred to hire and support the CalPERS staff needed to implement the investment management and administrative services.

The DCF was established by Chapter 1659 of the 1990 Statutes, which added Government Code Sections 21420-21429. These Government Code Sections were subsequently renumbered to Government Code Sections 21670-21685 by Chapter 379 of the 1995 Statutes. Operation and initial funding of the DCF commenced July 1991.

The net assets of the portfolio managed by CalPERS for the State of California Savings Plus Program are not included in the accompanying financial statements.

Financial statements for the portfolio managed by CalPERS for the State of California Savings Plus Program may be obtained by contacting CalPERS.

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The accounts of CalPERS are organized and operated on the basis of funds. CalPERS has the following fund types at June 30, 2005.

Fiduciary funds — including pension trust and agency funds, account for assets held by the government in a trustee capacity or as an agent on behalf of others. The pension trust funds (PERF, LRF, JRF, JRF II, VFF, SPOFF, IRC 457, RBF, and SCPF) are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Member contributions for the PERF, LRF, JRF, and JRF II are recognized in the period in which the contributions are due. Employer contributions for the PERF, LRF, JRF, JRF II, SPOFF, and RBF are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan. The agency fund (OASI) is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

Proprietary funds **—** including enterprise funds (LTCF, DCF, HCF, and CRF) are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. CalPERS applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations, and follows FASB pronouncements as appropriate.

Operating revenues and expenses are distinguished from nonoperating items and generally result from providing services in connection with ongoing operations. The principal operating revenues of the HCF, CRF, LTCF, and DCF are derived from self-insurance premiums and providing administrative services. Operating expenses include the cost of claims and related administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

GASB Statement No. 40

In March of 2003 the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures (GASB 40). The provisions of GASB 40 are effective for financial statements for periods beginning afer June 15, 2004. GASB 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive discolsure requirements relating to other common risks of investment such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. CalPERS has implemented the provisions of GASB 40 for the fiscal year ended June 30, 2005.

The net assets of the PERF account for 99.7 percent of all CalPERS net assets. For that reason, GASB 40 disclosures for the PERF are separately reported from all other affiliate funds. All other affiliate fund investments are reported in the aggregate.

Investments

As a result of Proposition 162 (State Constitution, Article XVI, Section 17), the CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies. CalPERS invests in stocks, bonds, mortgages, real estate, alternative, and other investments. Alternative investments include two components: direct investments and partnerships. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

All investments are reported at fair value. The fair values of investments in securities are generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount. Investments held in internal investment pools have been reported at fair value.

Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

There are certain market risks, credit risks, liquidity risks, foreign currency exchange risks, and event risks which may subject CalPERS to economic changes occurring in certain industries, sectors, or geographies.

Derivatives

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options with fair values of approximately $393,205,000 and negative $89,276,000 are held for investment purposes and included within the financial statements at June 30, 2005 and 2004, respectively. Gains and losses on futures and options are determined based upon quoted market values and recorded in the Statement of Changes in Fiduciary Net Assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. At June 30, 2005 and 2004, CalPERS has approximately $393,127,000 and negative $89,051,000 net exposure to loss from forward foreign currency exchange transactions related to the approximately $43 billion and $38 billion international debt and equity portfolios, respectively.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

Capital Assets

Capital assets are defined by CalPERS as assets with an initial individual cost of $5,000 or more, and an estimated useful life in excess of one year.

Capital assets held by the PERF, consisting of buildings, furniture, and equipment, are recorded at cost or, if donated, at their estimated fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives, ranging from one to five years for furniture and equipment and 40 years for buildings, using the straight-line method of depreciation.

The CalPERS Board of Administration has authorized approximately $265,000,000 for the construction of additional headquarters space. During the 2005 fiscal year, $83,404,000 was disbursed for land acquisition, site preparation, and building construction.

Actuarial Valuation

The information included in the required supplemental schedules is based on the actuarial valuations performed as of June 30, 2004, which is the latest available information. Significant actuarial assumptions used in the valuations are included in the notes to the required supplemental schedules.

Reclassification of Prior Year Amounts

Certain amounts in 2004 comparative totals have been reclassified to conform with the current year presentation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and net assets held in trust for pension benefits and changes therein, IBNR, claims payable, and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

Cash and cash equivalents of approximately $281,512,000 and $328,467,000 in 2005 and 2004, respectively, represent amounts held in the CalPERS general operating accounts with the State Treasury. These monies are not individually identifiable by fund, as they are pooled with the monies of other State agencies and invested by the State Treasurer's Office.

4. Investments

For the years ended June 30, 2005 and 2004, State Street Bank & Trust Company was the master custodian for significantly all of the securities of CalPERS, however, certain securities are held by alternative investment managers. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. The investments held by LRF, JRF II, VFF, SCPF, and LTCF have been commingled in three investment pools. Two of these investment pools are domestic equity securities and domestic debt securities, which are managed by CalPERS. The third pool is international equity securities, which is managed by State Street Bank & Trust Company. Each of the five funds has a different asset allocation based on Board-approved policy.

For the 2004-2005 fiscal year, CalPERS has implemented the Governmental Accounting Standards Board Statement 40. In accordance with GASB 40, CalPERS discloses investments that are subject to certain risks: Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk. The GASB 40 disclosures replace the investments risk categories table included in the 2003-2004 CalPERS Comprehensive Annual Financial Report.

GASB 40 investment risk disclosures begin on page 47, disclosing the investments subject to the various risks for the PERF and all other affiliate funds.

Securities Lending

The State Constitution and CalPERS Board policies permit CalPERS to use investments of the PERF to enter into securities lending transactions; collateralized loans of securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. CalPERS has contracted with Boston Global Advisors (BGA), Credit Suisse First Boston (CSFB), State Street Bank & Trust (SSB) and Metropolitan West Securities, LLC (Met West) as third-party securities lending agents to lend domestic and international equity and debt securities. Additionally, CalPERS contracts with eSecLending as an administrative agent for CalPERS principle borrowers. Domestic and international securities are collateralized for cash at 102 percent and 105 percent of the securities market value respectively. Management believes CalPERS has minimized credit risk exposure to borrowers by requiring the borrower to provide collateralization greater than 100 percent of the market value of the securities loan. The securities loaned are priced daily.

In the event that a borrower fails to return the securities or fails to remit income distributions by the securities' issuers to CalPERS while the securities are on loan, the agent is responsible for the associated costs. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower. CalPERS may enter into term loan agreements which are evaluated on an individual basis.

The cash collateral is invested in accordance with CalPERS investment guidelines in short-term conservative managed investment funds. CSFB, Met West, and SSB manage the cash collateral. CalPERS internally manages a portion of the collateral. Met West matches the duration of the collateral to the duration of the loans. Because the loans made by CSFB and SSB are terminable at will, they do not match the durations of the collateral to that of the loans. For the year ended June 30, 2005, the collateral invested in short-term funds had weighted average maturities of 349 days, 114 days, 113 days, and 285.39 days and durations of 44, 29, 39, and 23.74 days for CSFB, SSB, Met West and CalPERS Internally Managed portfolios, respectively.

Real Estate

Real estate investments are classified as investments in accordance with GASB Statement 25. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from CalPERS and other investors and through the acquisition of debt. At June 30, 2005, real estate equities of approximately $18,746,446 are reported at estimated gross fair market value. Of this amount $9,577,137 is equity and $9,169,309 is debt.

Required repayment of real estate debt is as follows.

(Dollars in Thousands)

Year Debt Matures	Amount
2006	1,183,159
2007	1,651,900
2008	515,000
2009	10,300
2010-2014	4,028,150
2015-2019	835,900
2020 & after	944,900
Grand Total	**$9,169,309**

Other Investment Income

Total Other Investment Income earned by CalPERS in the 2005 fiscal year is $1,312,779,000. This total consists of $1,210,568,000 from income distributions earned in the Alternative Investment Management Program (AIM), and $95,364,000 from securities litigation, sale of fractional shares, other miscellaneous income earned across all other investment portfolios and amortization income earned in the Fixed Income portfolios and $6,677,000 from the Directed Brokerage Program.

Custodial Credit Risk

CalPERS does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in CalPERS name. Nor does CalPERS have any investments that are not registered in the name of CalPERS and are either held by the counterparty or the counterparty's trust department or agent but not in CalPERS name.

Concentration of Credit Risk

CalPERS does not have investments in any one issuer which represent 5 percent or more of total fair value of all investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolios using the effective duration or option-adjusted methodology. The System's investment policies require the option-adjusted duration of the total fixed income portfolio to stay within 20 percent of the option adjusted duration of its benchmark (Lehman Brothers Long Liabilities). All individual portfolios are required to maintain a specified level of risk relative to their benchmark. Risk exposures are monitored daily. These are shown (Dollars in Thousands) grouped by effective duration ranges.

PERF

Debt security investments of the PERF subject to interest rate risk.

PERF - Debt Security Investments Subject to Interest Rate Risk

(Dollars in Thousands)

Debt Security Type	Market Value June 30, 2005	Percent of All Debt Securities	Portfolio Weighted Average Effected Duration (Years)
U.S. Treasuries & Agencies	$13,106,542	24.1%	8.32
Mortgages	18,125,088	33.4	3.66
Corporate	11,361,713	20.9	8.76
Asset Backed	7,230,777	13.3	2.54
International	4,516,658	8.3	9.66
Total	**$54,340,778**	**100%**	

Affiliate Funds

Below are the debt security investments of all the other Affiliate Funds subject to interest rate risk. Affiliate Funds include the Health Care Fund, State Peace Officers' and Firefighters' Savings Fund, Judges' Retirement Fund II, Long-Term Care Fund, the Volunteer Firefighters' Length of Service Award Fund, and the Legislators' Retirement Fund.

Affiliate Funds - Debt Security Investments Subject to Interest Rate Risk

(Dollars in Thousands)

Debt Security Type	Market Value June 30, 2005	Percent of All Debt Securities	Portfolio Weighted Average Effected Duration (Years)
U.S. Treasuries	$224,433	28.2%	6.79
Mortgages	213,184	26.8	2.85
Corporate	187,013	23.5	8.67
Asset Backed	45,577	5.7	0.45
Govt. Agency	41,332	5.2	6.75
Sovereign	14,830	1.9	10.22
Pooled	68,645	8.7	N/A
Total	**$795,014**	**100.0%**	

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The System's asset allocation and investment policies allow for active and passive investments in international securities. The System's target allocation is to have 20 percent of total global equity assets invested in international equities and 11.5 percent of total fixed income invested in international securities. Real Estate and AIM do not have a target allocation for international investments. The System uses a currency overlay program to reduce risk by hedging up to 30 percent of the total international equity portfolio. Currency exposures are monitored daily.

Notes to the Basic Financial Statements

PERF

Investment securities of the PERF that are subject to foreign currency risk.

International Investment Securities – At Fair Value at June 30, 2005

(U.S. Dollars in Thousands)

Currency	Equity	AIM	Fixed Income	Real Estate	Currency Overlay	Cash	Total
Argentine Peso	$ —	$ —	$ —	$ —	$ —	$5	$5
Australian Dollar	1,641,555	3,755	174,200	—	4,018	53,964	1,877,492
Brazilian Real	352,479	—	—	—	—	277	352,756
British Pound Sterling	8,104,503	63,506	318,189		91,928	340,971	8,919,097
Canadian Dollar	2,006,531	8,861	99,826	9,314	(2,311)	6,395	2,128,616
Chilean Peso	46,571	—	—	—	—	107	46,678
Chinese Yuan	—	—	—	—	—	(2)	(2)
Czech Koruna	18,122	—	—	—	—	168	18,290
Danish Krone	269,614	757	131,352	—	13	10,566	412,302
Euro	11,895,227	340,905	2,310,824	—	226,469	363,762	15,137,187
Hong Kong Dollar	925,102	—	—	—	97	36,849	962,048
Hungarian Forint	139,502	—	10,197	—	—	3	149,702
Indian Rupee	231,540	—	—	—	—	7,197	238,737
Israeli Shekel	166,695	—	—	—	—	154	166,849
Japanese Yen	6,431,192	14,717	1,122,273	—	76,277	206,111	7,850,570
Malaysian Ringgit	163,493	—	—	—	—	342	163,835
Mexican peso	277,652	—	33,770	—	—	1,208	312,630
New Zealand Dollar	168,434	—	—	—	(12)	3,738	172,160
Norwegian Krone	326,109	—	88,179	—	12	6,322	420,622
Philippine Peso	95,156	—	—	—	—	1	95,157
Polish Zloty	68,454	—	76,474	—	—	175	145,103
Singapore Dollar	336,173	—	34,999	—	16	2,422	373,610
South African Rand	411,268	—	—	—	—	351	411,619
South Korean Won	847,297	—	30,676	—	—	503	878,476
Swedish Krona	796,341	—	50,567	—	6,940	42,653	896,501
Swiss Franc	2,140,679	371	—	—	37,947	126,222	2,305,219
Taiwan Dollar	544,182	—	—	—	—	7,098	551,280
Thailand Baht	60,100	—	—	—	—	3,281	63,381
Turkish New Lira	259,628	—	—	—	—	85	259,713
Total Securities Subject to Foreign Currency Risk	**$38,723,599**	**$432,872**	**$4,481,526**	**$9,314**	**$441,394**	**$1,220,928**	**$45,309,633**

Affiliate Funds

None of the Affiliate Funds hold securities subject to foreign currency risk.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The System's investment policies establish general as well as specific risk measures for the fixed income portfolio. From the most general perspective, 90 percent of the total fixed income portfolio must be invested in investment grade securities. Investment grade securities are those fixed income securities with a Moody's rating of AAA to BAA or a Standard & Poors rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily.

PERF

Debt investment securities of the PERF at market value that are subject to credit risk.

PERF - At Market Value Subject to Credit Risk

(Dollars in Millions)

Moody's Quality Rating	Fair Value	Fair Value as a Percent of Total Debt Security Investments
AAA	$25,933,118	46.1%
AA1	151,562	0.3
AA2	415,473	0.7
AAA3	671,139	1.2
A1	403,253	0.7
A2	1,872,846	3.3
A3	1,692,427	3.0
BAA1	1,762,213	3.1
BAA2	2,631,853	4.7
BAA3	2,030,001	3.6
BA1	223,562	0.4
BA2	235,271	0.4
BA3	122,954	0.2
B1	214,801	0.4
B2	211,083	0.4
B3	383,375	0.7
CAA1	132,803	0.2
CAA2	63,888	0.1
CAA3	196,436	0.4
CA	82,154	0.2
C	301	0.0
Not Rated	16,855,706	29.9
Total	**$56,286,219**	**$100.0%**

Affiliate Funds

CalPERS Affiliate Funds have $795,014,000 invested in Domestic Debt securities. The affiliate funds debt investments are commingled in pooled debt investment portfolios which are not rated by a nationally recognized statistical rating organization. The underlying assets of these pooled investment portfolios are both internally and externally managed.

Notes to the Basic Financial Statements

Net (depreciation) appreciation in the fair value of investments for the years ended June 30 was as follows.

(Dollars in Thousands)

	PERF		LRF		JRF II		VFF	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Realized (Loss) Gain on Sale of Investments	$4,246,292	$3,546,303	$4,886	$15,834	$3,686	$2,728	$57	$170
Appreciation (Depreciation) in Fair Value of Investments	11,105,379	14,928,284	7,034	(4,972)	10,692	10,658	172	79
Net Appreciation (Depreciation) in Fair Value of Investments	**$15,351,671**	**$18,474,587**	**$11,920**	**$10,862**	**$14,378**	**$13,386**	**$229**	**$249**

Due to the types of investments held by the JRF, RBF, CRF, and DCF, there was no appreciation (depreciation) in fair value of investments in those funds for the years ended June 30, 2005 or 2004. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods.

SPOFF		IRC 457		SCPF		HCF		LTCF		Totals	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
$715	$289	($1,710)	$291	$303	$10	($268)	($116)	$99,486	$10,268	$4,353,447	$3,575,777
15,858	18,676	13,405	27,989	1,585	2,866	(18)	(39)	17,757	126,124	11,171,864	15,109,665
$16,573	**$18,965**	**$11,695**	**$28,280**	**$1,888**	**$2,876**	**($286)**	**($155)**	**$117,243**	**$136,392**	**$15,525,311**	**$18,685,442**

5. Contributions and Reserves

Employer Contributions Actuarially Determined and Contributions Made

Employer contributions are calculated as a percentage of employer payroll. The payroll for employees covered by the PERF, LRF, JRF, and JRF II in 2005 was approximately $35,622,145,000, $1,739,000, $133,668,000, and $104,659,000, respectively.

The PERF and JRF II use a Modified Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method. That is, the method takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee pension liability is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. The Entry Age Normal Actuarial Cost Method used by the PERF and JRF II is modified by CalPERS so that the employers' total normal cost is expressed as a level percentage of payroll. The PERF and JRF II use the level percentage of payroll method to amortize any unfunded actuarial liabilities.

The VFF uses the Unit Credit Actuarial Cost Method as the basis for its valuation. The LRF and JRF use the Aggregate Actuarial Cost Method as the basis for their valuations.

The significant actuarial assumptions used in the 2004 valuations to compute the actuarially determined contribution requirements for the PERF, JRF II, and VFF are the same as those used to compute the actuarial accrued liability.

Assumptions used in the actuarial valuations are included in the Notes to Required Supplemental Schedules.

Restrictions on Net Assets Available for Benefits

Included in the Net Assets Held in Trust For Pension Benefits is a restricted reserve that, by law, is retained in the PERF and LRF as a reserve against deficiencies in interest earned, potential losses under investments, court-mandated costs, and actuarial losses resulting from terminations, mergers, or dissolutions of contracting agencies. This reserve cannot exceed 0.2 percent of total assets of the PERF and the LRF, and totaled approximately $399,518,000 and $346,628,000 as of June 30, 2005 and 2004, respectively.

PERF

Actuarial valuations of the PERF are performed annually. The last valuation was performed as of June 30, 2004, for the State, schools, and public agencies.

The total 2005 Net Retirement Contributions for the PERF amounted to approximately $8,950,901,000, of which $5,774,120,000 (the actuarially determined annual required contribution) came from 1,524 employers and approximately $3,176,781,000 came from more than 789,000 members. Normal cost is 10.262 percent of covered payroll, and amortization of the unfunded liabilities is 4.103 percent of covered payroll. These figures are averages for all employers. The actual figures vary by each employer's plan.

LRF

The current contribution requirements of the LRF are based on actuarially determined rates promulgated as part of legislation passed in 1977.

Actuarial valuations of the LRF are required to be carried out at least every two years. The Board of Administration utilizes these actuarial valuations to make recommendations to the State for financing the Fund. For the fiscal year ending June 30, 2005, there was no statutory contribution required based on the June 30, 2003 valuation.

JRF

Contributions made by the State of California to the JRF are made pursuant to State statute and are not actuarially determined; however, an actuarial valuation of the JRF assets and liabilities is performed every year and is used by CalPERS to make recommendations for financing the JRF.

The California law which states that on and after January 1, 2004, the JRF shall be funded and actuarially sound was amended in conjunction with the adoption of the Judges' Retirement System II Law, which, among other provisions, eliminated the requirement that the JRF be funded and actuarially sound. Recommendations to achieve the necessary level of contributions have been submitted by the CalPERS Board to the Legislature.

As of June 30, 2005, funding was provided from the following sources to meet benefit payment requirements.

- ***Member Contributions*** — 8 percent of applicable member compensation.
- ***Employer Contributions*** — 8 percent of applicable member compensation.
- ***Filing Fees*** — Varying amounts depending on fee rate and number of filings.
- ***Investments*** — Current yield on short-term investments.
- ***State of California "Balancing Contributions"*** — An amount required by the Judges' Retirement Law, at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of 1) the estimated member contributions during the ensuing fiscal year and; 2) net assets available for benefits at the beginning of the fiscal year.

Under the pay-as-you-go basis, short-term investments as well as contributions received during the year are used to make benefit payments. Management and legal counsel believe the State of California is legally required to provide these required contributions to fund the benefits.

For the year ended June 30, 2005, the actual contributions made by the State to the JRF were approximately $127,078,000, which is significantly less than the actuarially determined annual required contribution of approximately $189,950,000.

Because current contributions are used to make benefit payments, the fund does not retain the accumulated contributions of active members. The cumulative contributions of all currently active members since inception were approximately $135,561,000 and $135,603,000 at June 30, 2005 and 2004, respectively, which exceeded Net Assets Held in Trust for Pension Benefits by approximately $118,317,000 and $130,993,000 at June 30, 2005 and 2004, respectively.

JRF II

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The last actuarial valuation was performed as of June 30, 2004.

For the year ending June 30, 2005, the statutory employer contribution rate was 20.252 percent based on the June 30, 2003 actuarial valuation. Therefore, for the year ended June 30, 2005, the contributions made by the State to the fund were approximately $21,195,000, which is slightly less than the actuarially determined required contributions of approximately $22,820,000.

VFF

The current contribution requirements of the VFF are based on actuarially determined rates promulgated as part of the Volunteer Firefighters' Length of Service Award Act passed in 1979.

Actuarial valuations of the VFF are required to be carried out at least every two years. The last valuation was performed as of June 30, 2004. The Board of Administration utilizes these actuarial valuations to make recommendations for financing the fund.

Contributions for prior service credits are recognized as revenue by VFF at the time a contract with the participating agency is executed. The participating agency may elect to pay the contributions for prior service credits in a lump sum or over a period of up to 10 years.

6. Commitments

Contract commitments for the construction of additional headquarters space in the amount of $24,444,000, to be paid upon satisfactory completion of work, were pending on June 30, 2005.

At June 30, 2005, CalPERS total capital commitments to private equity funds was $26.3 billion. Of this amount, $9.1 billion remained unfunded and is not recorded on the CalPERS balance sheet.

At June 30, 2005, CalPERS total commitments to purchase real estate equity was $504,988,000.

7. Contingencies

CalPERS began a Credit Enhancement Program during the 2004-2005 fiscal year by entering into agreements with a number of issuers of non-taxable debt to provide payment of principal and interest in the event of non-payment. CalPERS is paid a quarterly fee over the term of the agreement for each transaction. The majority of the transactions are supported by collateral, letters of credit from banks or bond insurers for repayment. As of June 30, 2005 the Credit Enhancement Program had contingent liabilities of approximately $579 million and net fee income of approximately $364,000.

CalPERS is a defendant in litigation involving individual benefit payment and participant eligibility issues and arising from its normal activities. In the event of an adverse decision, any payments awarded by the courts would be recovered by CalPERS through prospective adjustments to the employer contribution rate. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

8. Health Care Fund

Basis for Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been "incurred but not reported" (IBNR). The estimated claims liability was calculated by Blue Cross, the HCF's third-party administrator, at June 30, 2005, using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability of $159,404,000 is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to June 30, 2005, but have not been reported to the HCF.

Anticipated Investment Income

Anticipated investment income is not included in the calculation of the annual premium requirement for HCF members.

Reinsurance

The HCF has not entered into any reinsurance or excess insurance agreements.

9. Long-Term Care Fund

The Public Employees' Long-Term Care Fund (LTCF) estimate of the funding level to provide for the payment of future claim benefits is predicated upon participation levels that are expected to be achieved by the program. The premiums from the LTCF are recognized during the period covered.

The LTCF establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by the fund's actuary, using a variety of actuarial and statistical techniques as part of their actuarial review as of June 30, 2005. Certain key assumptions used in this calculation are a discount rate of 7.79 percent (the average rate of assumed investment yields in effect for the current year), morbidity, disability continuance, mortality, voluntary termination, and claims expense. The total estimated liability for future policy benefits as of June 30, 2005, was $2,323,700,000. Of that amount, $78,988,000 is expected to be paid in fiscal year 2006 and is included in current liabilities.

The following represents changes in the aggregate estimated claims liabilities of the HCF for the years ended June 30:

(Dollars in Thousands)

	PERSCare/PERS Choice	
	2005	**2004**
Total Estimated Claims at Beginning of Fiscal Year	**$132,876**	**$131,916**
Incurred Claims & Claim Adjustment Expenses:		
Provision for Insured Events of the Current Fiscal Year	$1,083,011	$940,396
Decrease in Provision for Insured Events of Prior Years	(56,953)	(54,043)
Total Incurred Claims & Claim Adjustment Expenses	**$1,026,058**	**$886,460**
Payments:		
Claims & Claim Adjustment Expenses Attributable to Insured Events of the Current Year	$923,608	$807,520
Claims & Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	75,923	77,873
Total Payments	**$999,531**	**$885,500**
Total Estimated Claims at End of the Fiscal Year	**$159,403**	**$132,876**

Required Supplemental Schedules

Required Supplemental Schedule of Funding Progress

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
PERF						
6/30/95	83,775	87,673	3,898	95.6	20,800	18.7
6/30/96	94,230	96,838	2,608	97.3	22,322	11.7
6/30/97	108,566	97,925	(10,641)	110.9	22,504	(47.3)
6/30/98	128,830	106,938	(21,892)	120.5	24,672	(88.7)
6/30/99	148,605	115,748	(32,857)	128.4	27,636	(118.9)
6/30/00	162,439	135,970	(26,469)	119.5	28,098	(94.2)
6/30/01	166,860	149,155	(17,705)	111.9	30,802	(57.5)
6/30/02	156,067	163,961	7,894	95.2	32,873	24.0
6/30/03	158,596	180,922	22,326 [1]	87.7	34,784	64.2
6/30/04	169,899	194,609	24,710	87.3	35,078	70.4
LRF						
6/30/95	88.5	101.6	13.1	87.1	4.9	267.3
6/30/96	94.2	105.2	11.0	89.5	4.8	229.2
6/30/97 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/98 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/99 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/00 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/04 [2]	N/A	N/A	N/A	N/A	N/A	N/A
JRF						
6/30/95	9.3	1,406.0	1,396.7	0.7	156.8	890.1
6/30/96	12.5	1,460.1	1,447.6	0.9	153.8	941.0
6/30/97 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/98 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/99 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/00 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03 [2]	N/A	N/A	N/A	N/A	N/A	N/A
6/30/04 [2]	N/A	N/A	N/A	N/A	N/A	N/A

Required Supplemental Schedule of Funding Progress (continued)

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
JRF II						
6/30/95	$.239	$.071	($.168)	338.6%	$.9	(18.7%)
6/30/96	2.388	2.813	.425	84.9	8.1	5.3
6/30/97	7.242	7.906	.664	91.6	15.4	4.3
6/30/98	15.120	15.043	(.077)	100.5	33.9	(0.2)
6/30/99	27.155	26.921	(.234)	100.9	40.0	(0.6)
6/30/00	40.503	41.619	1.116	97.3	43.0	2.6
6/30/01	55.955	60.933	4.979	91.8	61.5	8.1
6/30/02	71.929	76.459	4.530	94.1	72.8	6.2
6/30/03	96.107	105.116	9.009	91.4	87.3	10.3
6/30/04	129.152	137.704	8.551	93.8	99.0	8.6
VFF						
6/30/95	.931	.815	(.116)	114.2	N/A	N/A
6/30/96	1.078	.934	(.144)	115.4	N/A	N/A
6/30/97	1.360	1.121	(.239)	121.3	N/A	N/A
6/30/98	1.678	1.500	(.178)	111.8	N/A	N/A
6/30/99	1.987	1.805	(.182)	110.1	N/A	N/A
6/30/00	2.302	2.296	(.006)	100.3	N/A	N/A
6/30/01	2.524	2.183	(.341)	115.6	N/A	N/A
6/30/02	2.310	2.453	.143	94.2	N/A	N/A
6/30/03	2.786	3.206	.420	86.9	N/A	N/A
6/30/04	2.975	3.525	.550	84.4	N/A	N/A

Notes:

1 Beginning with the June 30, 2004 actuarial valuation, the assets and liabilities of the 3rd, 4th, 5th, and Indexed Levels of the 1959 Survivor Benefit Program are included in the PERF funding progress. The Unfunded Actuarial Accrued Liability (net assets in excess of the total Actuarial Liability) of the PERF by major employer group from the June 30, 2004 valuation is as follows: 1) $12,746 for the State of California, 2) $2,589 for schools, and 3) $9,375 for public agencies.

2 Beginning with the June 30, 1997 valuation, actuarial valuations were performed using the Aggregate Cost Valuation Method, which does not identify unfunded actuarial liabilities. Prior to the June 30, 1997 valuation, actuarial valuations were performed using the Aggregate Entry Age Normal Cost Valuation Method.

Required Supplemental Schedule of Employer Contributions

	PERF Employer Contributions		LRF Employer Contributions	
Year Ended June 30	Annual Required Contribution	% of Required Contributions Made	Annual Required Contribution	% of Required Contributions Made
1996	$1,850,103,438 [1]	100%	$2,014,826	28.3%
1997	2,285,043,412 [1]	147 [2]	1,933,367	127.8 [3]
1998	2,289,526,403	100	2,022,421	33.4
1999	1,598,316,666	100	— [4]	N/A
2000	362,614,344	100	— [4]	N/A
2001	321,618,855	100	— [4]	N/A
2002	800,964,553	100	— [4]	N/A
2003	1,925,043,858	100	— [4]	N/A
2004	4,261,347,422	100	— [4]	N/A
2005	5,774,120,281	100	------ [4]	N/A

Notes:

[1] Employer contributions to the PERF are shown net of the reduction in actuarially determined contributions resulting from the usage of A.B. 702 credits of approximately $323,000, $410,000, and $642,000 in 1997, 1996, and 1995 respectively.

[2] Includes $1.2 billion payment resulting from a court ruling of the S.B. 240 lawsuit *(Board of Administration v. Wilson)* which was appealed by the State and denied review by the California Supreme Court in May 1997. The Annual Required Contribution for 1997 is not affected by this payment.

[3] Includes additional contributions made in arrears. The Annual Required Contribution is not affected by this payment.

[4] Based on the June 30, 2002, 2001, 2000, 1999, 1998, and 1997 actuarial valuations, the annual required contributions for the years ended June 30, 2005, 2004, 2003, 2002, 2001, 2000, and 1999 were $0.

Required Supplemental Schedule of Employer Contributions (continued)

JRF Employer Contributions		JRF II Employer Contributions		VFF Employer Contributions	
Annual Required Contribution	% of Required Contributions Made	Annual Required Contribution	% of Required Contributions Made	Annual Required Contribution	% of Required Contributions Made
$91,379,475	66.6%	$1,507,116	100.0%	$54,844	100%
133,373,900	38.1	2,956,457	102.4	162,880	100
133,754,812	42.0	5,339,054	102.2	166,708	100
139,537,660	60.6	7,297,687	100.8	124,291	100
138,895,276	53.3	7,419,121	100.6	202,395	100
162,054,610	56.2	9,572,604	101.9	193,530	100
163,772,915	39.9	11,147,294	112.0	93,889	100
189,781,088	51.9	16,640,312	92.1	497,076	100
194,487,295	55.2	18,207,531	100.2	223,224	100
189,949,846	66.9	22,819,881	92.9	211,043	100

Notes to Required Supplemental Schedules

1. Actuarial Information

The information presented in the required supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation is as follows.

	PERF	LRF	JRF	JRF II	VFF
Valuation Date	June 30, 2004	June 30, 2004	June 30, 2004	June 30, 2004	June 30, 2004
Actuarial Cost Method	Individual Entry Age Normal Cost	Aggregate Cost Method	Aggregate Cost Method	Aggregate Entry Age Normal Cost	Unit Credit
Amortization Method	Level Percentage of Payroll Closed	None [2]	None [2]	Level Percentage of Payroll Closed	Fixed Years
Remaining Amortization Period	30 Years for Schools, Average of 26 Years for Public Agencies, and 22 to 29 Years for the State Plans	None [2]	None [2]	Average of 30 Years	30 Years
Asset Valuation Method	Smoothing of Market Value	Smoothing of Market Value	Market Value	Smoothing of Market Value	Smoothing of Market Value
Actuarial Assumptions:					
Net Investment Rate of Return	7.75%	7.00%	7.00%	7.25%	7.50%
Projected Salary Increases [1]	Varies, Based on Duration of Service	3.25%	3.25%	3.25%	None
Post Retirement Benefit Increase	2% or 3% for State and schools Depending on plans System Varies 2% to 5% for Public Agencies	3.00%	3.25%	3.00%	None
[1] Includes Inflation at:	3.00%	3.00%	3.00%	3.00%	N/A

[2] The Aggregate Cost Method does not identify or separately amortize unfunded actuarial liabilities.

Required Supplemental Schedule of Claims Development Information

The table on the next page illustrates how the HCF earned revenues and investment income compared to related costs of loss and other expenses assumed by the HCF as of the end of each of the years presented. The rows of the table are defined as follows.

1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.

2) This line shows each fiscal year's other operating costs of the HCF, including overhead and claims expense not allocable to individual claims.

3) This line shows the HCF's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*).

4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.

5) This section shows how each policy year's incurred claims changed as of the end of successive years. This annual re-estimation results from new information received on known claims, as well as emergence of new claims not previously known.

6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

Required Supplemental Schedule of Claims Development Information (continued)

Public Employees' Health Care Fund — June 30, 2005

(Dollars in Thousands)

	Fiscal & Policy Year Ended			
	1996	1997	1998	1999
1. Net Earned Required Contribution & Investment Revenues	$340,907	$340,596	$359,466	$396,255
2. Unallocated Expenses	$27,031	$29,796	$26,873	$37,869
3. Estimated Incurred Claims & Expenses, End of Policy Year	$263,264	$333,530	$339,123	$402,578
4. Paid (Cumulative) as of:				
End of Policy Year	$187,679	$262,248	$269,645	$327,336
One Year Later	236,082	312,932	316,528	373,345
Two Years Later	236,082	312,932	316,528	373,345
Three Years Later	236,082	312,932	316,528	373,345
Four Years Later	236,082	312,932	316,528	373,345
Five Years Later	236,082	312,932	316,528	373,345
Six Years Later	236,082	312,932	316,528	373,345
Seven Years Later	236,082	312,932	316,528	—
Eight Years Later	236,082	312,932	—	—
Nine Years Later	236,082	—	—	—
5. Re-estimated Incurred Claims & Expenses:				
End of Policy Year	$263,264	$333,530	$339,123	$402,578
One Year Later	236,082	312,932	316,528	373,345
Two Years Later	236,082	312,932	316,528	373,345
Three Years Later	236,082	312,932	316,528	373,345
Four Years Later	236,082	312,932	316,528	373,345
Five Years Later	236,082	312,932	316,528	373,345
Six Years Later	236,082	312,932	316,528	373,345
Seven Years Later	236,082	312,932	316,528	—
Eight Years Later	236,082	312,932	—	—
Nine Years Later	236,082	—	—	—
6. Decrease in Estimated Incurred Claims & Expenses From End of Policy Year	($27,182)	($20,598)	($22,595)	($29,233)

Required Supplemental Schedule of Claims Development Information (continued)

Public Employees' Health Care Fund — June 30, 2005

(Dollars in Thousands)

Fiscal & Policy Year Ended					
2000	2001	2002	2003	2004	2005
$472,233	$581,015	$747,491	$947,492	$1,048,042	$1,115,172
$35,780	$41,180	$43,926	$50,296	$58,182	$65,902
$537,181	$599,337	$684,425	$854,648	$940,503	$1,083,011
$443,109	$495,466	$562,894	$722,732	$807,627	$923,608
498,607	554,361	628,405	800,605	883,550	—
498,607	554,361	628,405	800,605	—	—
498,607	554,361	628,405	—	—	—
498,607	554,361	—	—	—	—
498,607	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
$537,181	$599,337	$684,425	$854,648	$940,503	$1,083,011
498,607	554,361	628,405	800,605	883,550	—
498,607	554,361	628,405	800,605	—	—
498,607	554,361	628,405	—	—	—
498,607	554,361	—	—	—	—
498,607	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
($38,574)	($44,976)	($56,020)	($54,043)	($56,953)	$—

Supporting Schedules

Administrative Expenses — All Funds

(Dollars in Thousands)

Personnel Services	
Salaries & Wages	$98,007
Employee Benefits	33,159
Total Personnel Services	**$131,166**
Consultant & Professional Services	
State of California Agencies	$2,755
External Consultants	34,027
Health Plan Administrator Fees	56,756
Deferred Compensation Management/Custody Fees	77
Long-Term Care Administrator Fees	15,654
Total Consultant & Professional Services	**$109,269**
Operating Expenses & Equipment	
General Expense	$5,101
Software	1,818
Printing	1,671
Postage	4,088
Communications	2,364
Data Processing Services	11,781
Travel	1,558
Training	1,522
Medical Examiners	852
Facilities Operation	18,579
Central Administrative Services	7,831
CSUS Foundation - Students	2,738
Administrative Hearings	214
Consolidated Data Center	906
Equipment	162
Total Operating Expenses & Equipment	**$61,185**
Other Expenses	
Depreciation Expense	$6,405
Increase in Paid Absence Obligation	4,447
Reimbursements	(2,093)
Prior Year & Other	1,077
Total Other Expenses	**$9,836**
Total Administrative Expenses — All Funds	**$311,456**

Investment Expenses — PERF

(Dollars in Thousands)

External Securities Management Fees & Other Fees

	Net Assets Managed at Fair Value	Fees
External Domestic Equity Managers		
Active Value Fund SW2P	$167,827	$848
Alliance Cap Mgmt, L.P./Sanford C. Bernstein SW5I	613,577	781
Atlantic Asset Management Partners SWAN	544,988	234
Blackrock International SW6I	—	50
CalPERS Hedge Fund Partners SW8A	734,669	631
Denali Advisors, LLC SW4S	121,789	458
Enhanced Investment Technologies SWAY	873,576	406
Franklin Advisors, Inc. SW8P	788,735	777
Franklin Portfolio Associates SWAX	855,621	400
Geewax, Terker & Co. SW2B	474,450	493
Golden-Large Core Investments SW4L	51,049	241
Golden-Large Value Investments SW4M	216,817	1,008
Golden-Small Core Investments SW4J	119,752	544
Goldman Sachs Asset Management SW8H	343,261	626
Goldman Sachs Small CAP SWAW	413,970	100
J.P. Morgan SW5G	551,367	98
Knight Vinke Institutional Partners SW9G	85,975	5,098
Oak Associates, Ltd. SW1Z	331,473	478
Oppenheimer Capital SW2A	—	255
Osprey Partners SW5H	497,814	752
Pacific Alternative Asset Management Co. SWAB	—	130
Philippe Investment Management SWAQ	80,373	256
Progress Putnam Lovell SW4A	—	1,204
Progress-Putnam Lovell Ventures SW4B	—	322
Pzena Investment Mgrs., LLC SW5F	727,965	1,802
Quantitative Management Associated SWAU	858,263	421
Relational Investors SW2R	1,082,598	4,371
Rigel Capital LLC-Large Cap SW9U	172,559	678
Rigel Capital LLC-Small-Mid Cap SW9V	57,950	139
Shamrock Governance Fund, L.P. SWB2	43,327	1,945
Shenandoah Asset Management SW4N	149,874	522
Smith Asset Management Group Large Cap SW9X	141,308	646
Smith Asset Management Group Small Cap SW9Y	99,588	447
Smith Graham & Company SW7O	138,680	549
Strategic Investments SW4G	—	2,791
Strategic Ventures SW4H	—	419
Stux Investment SWAH	215,865	1,019
Taiyo Fund Mgmt. Co. SW9L	374,360	901
The Boston Company Asset Management, LLC SW2E	769,343	728
Timeless Investments SW8V	219,058	1,345
UBS Alternative and Quantitative Inv. SWAG	481,002	1,324
Westcap Investors SW7M	155,758	869
Western Asset Management Company SWAZ	548,023	405
Total External Domestic Equity Managers		**$37,511**

	Net Assets Managed at Fair Value	Fees
Exrternal Domestic Fixed Income Managers		
AFL-CIO	—	$288
ING Ghent Asset Management, LLC SW7X	$299,057	1,604
LM Capital Ventures SW4X	178,333	326
Nomura Corporate Research & Asset Mgmt. SW7Y	392,876	1,673
Pacific Investment Mgmt. Co., LLC. SW7W	371,460	1,563
Shenkman Capital Management, Inc. SW7Z	—	185
Smith Breeden Associates SWAS	642,305	353
Total External Domestic Equity Managers		**$5,992**
Global Equity Managers		
Alliance Bernstein Institutional Inv. SW8N	1,263,676	1,039
Arrowstreet Capital, L.P. SW6M	717,963	786
Arrowstreet SW4D	124,417	167
Artisan Partners L.P. SW6O	362,711	230
Axa Rosenberg SW5L	907,425	1,137
Baillie Gifford Overseas Limited SW6N	725,566	814
Bank of Ireland SW5N	—	106
Capital Guardian SW5M	510,601	754
Dimensional Fund Advisors SW7I	1,440,667	3,110
GE Asset Management SW6L	—	90
Genesis Asset Managers SW8O	1,136,667	1,827
Grantham, Mayo, Van Otterloo, & Co, LLC SW6J	907,623	589
Nomura Asset Management U.S.A., Inc. SJ25	803,880	842
Northroad Capital Investments SWAD	227,091	1,166
Oechsle International Advisors SJ23	—	256
Pareto Partners (Currency Forwards) SJ70	—	2,356
Philippe Investment Management SW4P	—	166
Pyrford Investments SW4V	351,041	1,835
Sparx Value Creation Fund SW7H	426,258	1,436
State Street Bank (Currency Forwards) SW1D	—	1,302
State Street Bank SW6A & SW7G	25,001,956	2,749
Weiss Peck & Greer, LLC SW6E	390,424	662
Total Global Equity Managers		**$23,419**
Global Fixed Income Managers		
Baring Asset Management SJ28	$971,758	$815
Bridgewater Associates SW5D	1,282,077	859
Julius Baer Invest Management, Inc. SJ83	1,100,603	333
Rogge Global Partners SW5B	1,257,450	936
Wellington Management Company SW5A	—	276
Western Asset Global Management SW5E	683,112	322
Total Global Fixed Income Managers		**$3,541**
Total External Securities Management Fees & Other Fees		**$70,463**

Investment Expenses — PERF

(Dollars in Thousands)

External Securities Management Performance Fees

	Fees
External Domestic Equity Managers	
External Domestic Equity Managers	$575
Franklin Advisor, Inc.	542
Geewax, Terker & Co.	2,466
J.P. Morgan	421
Progress Putnam Lovell	4,638
Pzena Investment Managers, LLC	2,594
Strategic Investments	1,489
Total External Domestic Equity Managers	**$12,725**
Global Equity Managers	
Axa Rosenberg	$1,256
Arrowstreet	35
Total Global Equity Managers	**$1,291**
Global Fixed Income Managers	
Julis Baer	$726
Rogge Global Partners	126
Western Asset Management Company	237
Total Global Fixed Income Managers	**$1,089**
Total External Securities Management Performance Fees	**$15,105**
Total External Securities Management Fees, Performance Fees, & Other Fees	**$85,568**

(Dollars in Thousands)

Real Estate Advisors Asset Managment Fees

	Net Assets Managed at Fair Value	Fees
Aetos Capital Asia	61,291	$1,501
AEW Capital Management	213,453	2,009
Black Bear, LTD	(301)	141
Buchanan Street Advisors, LP	75,023	686
Capri Capital Management	29,582	306
CIM Urban Fund Gp. LLC	183,192	6,116
CWP Capital Advisory, LLC	113,500	5,438
DB Global	76,858	2,019
DIVCO	9,371	655
Eastern Shopping Center	(98,425)	8,112
European Property Investorsn IXIS - AEW	14,881	471
General Investment & Development	389,026	3,677
Global Innovation Partners	517,801	5,981
Great Eastern Timber Group	26,206	594
Hampshire	11,643	492
Hearthstone Housing Partners	182,561	2,458
Hines National Office Partnership (includes Int'l)	630,282	5,438
Institutional Housing Partners	355,351	20,107
Institutional Mall Investors, LLC	1,127,444	6,128
Kennedy Associates	42,057	178
KSC	1,814	38
La Salle - (includes international assets)	709,727	6,578
MacFarlane/Weyerhaeuser	251,741	23,972
Meriweather Farms	40,159	181
National Retail Partners (USRP)	(45,900)	4,675
Olympic Realty Advisors	111,342	6,999
Pacific Vinyard	70,813	970
Parcific City Homes (PCH)	54,459	5,368
Pical	5,001	4
Prudential (PLA Residential)	139,606	2,465
Residential	9,052	1,701
RLJ Urban Lodging Fund	4,615	217
RREEFinclude CalSmart	1,354,076	13,389
Secure Capital - Japan	76,951	1,557
Security Capital International	3,232	114
Shadduck Hammond Sr. Housing	97,574	1,850
Shea (Capital/Mountain)	126,790	710
SSR	902,131	29,109
UBS Brinson	111,227	713
Wells Fargo Housing Fund	82,823	1,917
Total Real Estate Partners Asset Management Fees		**$175,034**
Real Estate Partners Incentive Fees		**$577,133**
Credit Enhancement Program		**$87**
AIM Distibuted Stock Management Fees		**$1,123**
Internal Mortgage Loan Fees		**$1,529**
Total Real Estate Partners, AIM, Mortgages & CEP		**$754,906**

Investment Expenses — All Funds (continued)

(Dollars in Thousands)

Other Investment Consultants

	Net Assets Managed at Fair Value	Fees
Consultant Fees		
The Altman Group		$123
Baara		298
Blackrock		4,462
Blomquist & Company		103
Char;es River Development		143
Fan Asset Nanagement		23
Garland Associates, Inc.		90
Glass, Lewis & Co.		118
Hamilton Lane Advisors, Inc.		700
KPC Consulting Group		1,241
KPMG		996
Oxford Analyticia		645
Pacific Corporate Finance		1,525
Parent General Pesion Cons.Spr. Fed.		135
PCA/Kenneth Leventhal Co.		810
Pension Consulting Alliance		717
PricewaterhouseCoopers, LLP		1,163
Probitas Portfolio Management, LLC		516
Projects International		68
R.V. Kuhns & Associates, Inc.		99
State Street Bank & Trust Co.		383
State Street-Private Edge		920
Strategic Investment Solutions		7
Verite		450
Wilshire Associates		2,168
Total Consultant Fees		**$17,903**

	Net Assets Managed at Fair Value	Fees
Attorneys & Master Custodian		
Chapman Cutler		$176
Christensen		189
Covington & Burling		101
Cox, Castle & Nicholson, LLP		504
Foley & Lardner		51
Foster, Pepper & Shefelman, PLLC		241
Gardner Carton		12
Goldman Sachs Prime Brokerage		362
Jones Day		398
Kaplan Fox & Kilsheimer, LLP		19
McDonough, Holland, & Allen		331
McDowell, Rice, Smith & Buchnanan		6
Orrick		471
Patton Boggs, LLP		56
Paul, Hastings, Janofsky & Walker		843
Pillsbury Winthrop		1,529
Preston, Gates & Ellis		1,046
Rowlett Law, PPLC		19
Tory's, LLP		13
State Street Bank & Trust Company		9,988
Total Attorney & Master Custodian Fees		**$16,355**
Total Other Investment Consultants		**$34,258**
Miscellaneous Investment Expenses		**$129,286**
Directed Brokerage Expense		**$6,325**
Total Investment Expenses — PERF		**1,010,343**
Total Investment Expenses Other Funds		
Brown Capital Management - IRC 457	40,474	59
CalPERS Management Services - IRC 457	172,432	478
CitiStreet - IRC 457	408,107	1,162
Calif. Dept. of Personnel Admin. - IRC 457	85,499	94
State Street Global Advisors - SPOFF	236,951	1,319
Total Investment Expenses — All Funds		**1,013,455**

Consultant and Professional Services Expenses — PERF

(Dollars in Thousands)

Individual or Firm	Fee	Nature of Service
Trinity Technology Group, Inc.	$3,332	Enterprise Modeling and Mgmt. Business Intelligence Initiative; CDB Health Object Modeling/Data Structure Support
Medstat Group	2,200	Health Care Decision Support System
State Controller's Office	1,833	Expedite Processing Fees; Combined Warrant Services; Calif. Leave Acctg. System
Financial Finesse	1,501	Financial Planning Education Services
Softsol Resources, Inc.	1,359	Provide Conversion Tool and Application Development Resources to Convert and Migrate the CDB
Business Advantage Consulting	1,291	Requirements Analysis Services; Business Analysis Support
Software AG, Inc.	1,126	Annual Member Statements; Software for Backbridge Decommissioning Project
Oracle USA, Inc.	1,107	Oracle Database Administration Support
Kearnford Application Systems Design	1,075	CRS Project Data Cleanup
Delegata	1,021	ACES Payroll Edits Knowledge Transfer
CGI-AMS FDBA Synergy Consulting, Inc.	957	Employer and Participant Application Developer; T-Log and ACES Process Support
ADSI, Inc.	937	Support of Application System Support; Data Administration, Health Support
Princeton Solutions Group, Inc.	857	Corporate Database Java Architecture Support and Release Manager
Eclipse Solutions, Inc.	779	Pension System Resumption (PSR) Project Management Svcs.; Consulting Svcs. for Comprehensive Enterprise Web Strategy
Mercer Human Resource Consulting	724	Health Benefit, Medical Mgmt. and Pharmaceutical Benefit Mgmt. Consulting
Conrad & Associates	699	Real Estate Compliance & Construction Audits
Lussier, Vienna, Gregor & Associates	515	Federal Legislative Representative
KPMG, LLP	513	Contracting Process Improvement Project
KT Consulting	501	Consulting Services for Retirement Planning
Covansys	447	Corporate Database (CDB) Environment Support; Oracle DBA Support
Comsys	440	Mainframe Systems Administrator
Gabriel, Roeder, Smith Co.	427	Annual Valuations System; Proprietary Software Support
Information Technology SW Professional	425	PeopleSoft Technical Resource for 8.8 Upgrade; Maintenance Programming Svcs. on Mainframe Applications
Visionary Integration, Inc.	417	Requirements Analysis Services for PSR Project
Shooting Star Solutions, LLC	401	Alternative Procurement Project Oversight
AON Consulting	375	Health Actuarial and Health Benefits Consulting
Pyramid Technical Consultants, LLC	360	Equity Order Management System; User Acceptance Test Analysis
Engage Integrated Systems Technology	346	Disaster Recovery Planning Services
Vignasoft Information Technologies, Inc.	333	PeopleSoft Upgrade/HR Developer; Production Support Agile IT Support
Global Access, LLC	333	Oracle Database Access Support; Actuarial Valuation Database Support
Deloitte & Touche	323	Audit Services; Health Benefit Consulting Services
Stealth Network Communication	319	Interactive Voice Response; Technical Assessment Research
Seebeyond	310	Enterprise Application Integration Services
Tek Systems, Inc.	310	Member Self Services Database Support
Buck Consultants	280	360 Degree Leadership Development Program
Cooperative Personnel Services	277	Facilities Support Feasibility Analysis Project; Human Resources Svcs. Project
Wirestone	264	Web Reengineering Project; Marketing Services
Stanfield Systems, Inc.	257	Data Center Support; Mainframe Systems & 3rd Party Software Administrator
Moore Wallace Business Communications Services	252	Open Enrollment Processing and Distribution
Moore Wallace North America, Inc.	250	Process Member Statements; Mass Mailing & Printing Services; Board Elections
Russbo, Inc.	243	Requirements Analysis for Pension System Resumption Project (PSR)
Spherion Pacific Enterprises, LLC	241	Automated Communication Exchange Database; Oracle Database Access Support
Murphy Austin Adams Schoenfeld, LLP	225	Provide Legal Services to the Board in Connection with the R Street Project
Kong Consulting, Inc.	213	Consulting Services for PeopleSoft Financials Upgrade
EFI Actuaries	205	Asset Allocation Workshop; Actuarial Auditing Svcs.
Steptoe & Johnson, LLP	194	Tax Counsel
Saber Consulting, Inc.	192	Death Benefits Workflow Project
Roberta Almeida	193	RIBS Legacy Support Pre and Post Retirement Death Benefits Processes

Consultant and Professional Services Expenses — PERF (continued)

(Dollars in Thousands)

Individual or Firm	Fee	Nature of Service
Access Date Corp.	189	Investment Acctg. and Reconciliation Maintenance; Powerbuilder and Oracle Developer
Turner Construction	188	Provide Construction Management Services for the R Street Project
Govsec, Inc.	181	Information Security Office Consulting Services
CJS Consulting, Inc.	180	Legacy Mainframe Applications
Roberta Reagan, Inc.	170	Legacy System Support; Mainframe Enhancement
Wright On-Line Systems	167	Oracle DBA Support to the Computer Telephony Integration Database
Regents of the University	165	Training Courses
Advanced Programming Institute	163	Data Administration Maintenance and Project Support; Data Modeling Support
Sacramento Municipal Utility District	157	On-Site & Off-Site Network Line Extension for the R Street Project
Viasphire	157	Writing and Editing Services
Mara Consulting	156	Maintenance Programming Services for Legacy Mainframe Applications
Intersoft Systems and Programs, Inc.	150	Maintenance Programming Services for Legacy Mainframe Applications
Kendall Concepts	143	Production Services
Net Works Corporation	135	Radia Patch Management; HP Management Suite for Desktops Using Radia
Abltek, Inc.	124	Maintenance Programming Services for Powerbuilder Applications
Rapidigm, Inc.	120	PeopleSoft Financials Support
Alliance for Strategic Leadership	119	Leadership Development Program
DSS Research, Inc.	113	Member Satisfaction Survey
Herman, Mathis, Casey, Kitchens & Gerel, LLP	113	Audit Contract
Systems Consulting Consortium, Inc.	113	Strategic Information Systems Plan
Firestar Productions	110	Video Productions
Intraform	96	Board Elections Services
Ridgeway Partners, LLC	95	Executive Search Services
State Personnel Board	95	Consolidated Examination Services
Results Group	91	Leadership Management Training
Two Shea Consulting, Inc.	83	Annual Member Statements
Lance Jackson Enterprise	83	Legacy Mainframe Applications Support
Office Workouts	70	Aerobic Instruction
PM/CM Services, Inc.	69	Construction Project Management for Offsite Parking Project
Eagle Management Group	68	CalPERS Exhibition Booth Maintenance
Peters Shorthand Reporting	65	Court Reporting
Hay Group, Inc.	59	Employee Survey and Research
Dee Hansford Consulting	59	All Staff Training
PBGH	58	Web-Based Health Plan Chooser Tool
Adcom Media	58	Video Production Services
Whitehead Mann	51	Executive Search
Levy, Ram & Olson, LLP	49	Student Assistants
Access Enterprise	49	PeopleSoft Training, Issue Resolution, Data Cleanup and Preparation for 8.8 Upgrade
Michael Consulting Group	47	Survey and Research Services
Cooper, Robert K., PH.D.	46	Speaker at CalPERS Annual Managers' and Supervisors' Forum
Cedar Enterprises Solutions, Inc.	45	Application, Business Analysis, and Enhancement
DPS Network, Inc.	44	Disaster Recovery
Runyon, Saltzman & Einhorn, Inc.	36	Writing, Editorial & Marketing Services
Foster, Pepper & Shefelman, PLLC	36	Provide Legal Services to the Board in Connection with the AIM Program
Netresult, LLC	36	Digital Imaging Process for all Forms and Documents
McDonough, Holland & Allen	35	Outside Legal Counsel for R Street Project
Sheehan Associates	35	Message Development and Media Training
Hoyt Company	33	Transportation Services
Felderstein, Willoughby & Pascuzzi, LLP	33	Bankruptcy Counsel
Leading Resources, Inc.	32	Strategic Planning, Organizational Change Mgmt. and Leadership Development
SF Video, Inc.	28	Video Production Services
Access Data	26	PeopleSoft Training, Issue Resolution, Data Cleanup and Preparation for 8.8 Upgrade
Meta Group, Inc.	25	Consulting Services to Develop a Channel Management Strategy

Consultant and Professional Services Expenses — PERF (continued)

(Dollars in Thousands)

Individual or Firm	Fee	Nature of Service
Transvideo Studios	25	Video Services
ATV Video Center	24	Audio Visual Support Services
Incentive & Destination Management	23	Conference Planner
Pacific Gas and Electric	23	Services Related to R Street Project
Watson Wyatt Worldwide	23	Recruiting Services
Other	638	
Total Consultant & Professional Services	**$36,783**	